Telecommunication
Out of the woods

Sector In-Depth

Telcos

19 Sep 2022

Indonesian telco industry landscape
Following the completion of IOH consolidation, Indonesian telco industry consists of only four MNOs, which is viewed as a sustainable number. TLKM led the industry with a 50.5% mobile revenue share in 1H22, followed by ISAT/EXCL/FREN. TLKM being the most dominant operator commands a huge customer base of ~170mn subscribers, leaving the other operators with a huge gap. This, in our opinion, is a result of TLKM's integrated business model and wide-ranging infrastructure and networks.

Healthier environment post-IOH consolidation
One of the most noticeable effects of post-consolidation is a healthier environment, as seen by more reasonable data pricing. The market has been intensely competitive since a decade ago, with MNOs participating in price wars by either decreasing prices or over-promoting in an effort to increase their subscriber base. As a result, MNOs have seen years of diminishing profitability, and many have had trouble turning a profit. The sector is now moving in the right direction, as most MNOs, have begun to raise data prices and agree that the current condition is sustainable.

Positive data consumption trajectory to continue
We keep our upbeat outlook that Indonesia's data consumption will continue its positive upward trajectory. Mobile and digital adoption are expected to continue expanding fast in the following years. Not to mention how crucial and pervasive digital connectivity has become in many facets of daily life since the Covid-19 epidemic. Additionally, we think that MNOs will continue to find it appealing to enter the outside Java market which seems to be still underpenetrated.

Re-initiate telco sector with OVERWEIGHT call
We anticipate that a combination of a more favorable pricing environment, and the ongoing rise in data consumption will support MNOs' future top and bottom-line earnings. **Our top picks in the sector are EXCL and ISAT, as we expect them to book future solid top-line growth, on the back of data and ARPU growth**. In addition, they should be more benefitted from recent price hikes due to lower profitability, leading to higher potential EBITDA margin expansion. Although we are positive on TLKM's plan to unlock its other than mobile businesses, it may need some time to drive substantial top-line growth. Hence, we currently recommend HOLD for TLKM.

Telcos valuation

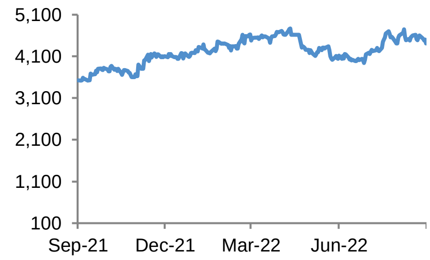
Ticker	Mkt Cap (IDR tn)	EV/EBITDA (x)		P/B (x)		EPS growth (%)		ROE (%)	
		FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
TLKM	436.9	6.1	5.7	3.4	3.2	5.3	5.6	20.5	20.0
ISAT	56.8	5.8	5.3	2.0	2.0	-63.5	-77.5	17.8	2.7
EXCL	26.8	4.7	4.3	1.3	1.2	0.5	16.5	6.1	6.8

Source: KISI

Overweight (Re-Initiate)

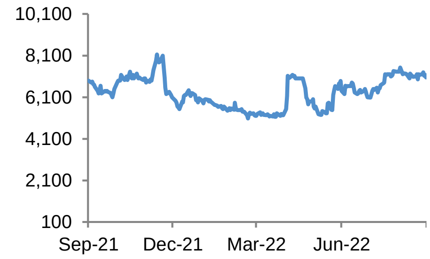
Company	Rating	TP (IDR)
TLKM	HOLD	4,900
ISAT	BUY	8,300
EXCL	BUY	3,900

TLKM Stock Price



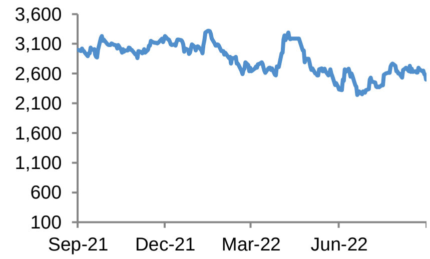
Source: Bloomberg

ISAT Stock Price



Source: Bloomberg

EXCL Stock Price



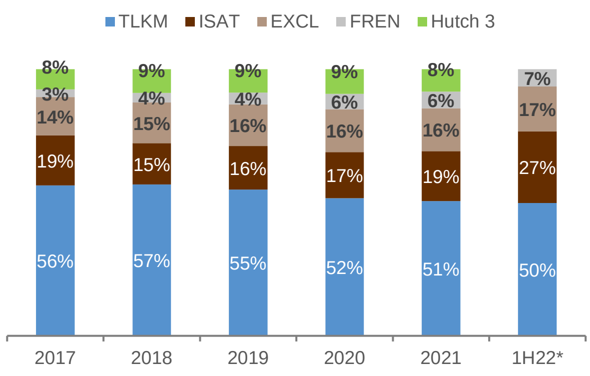
Source: Bloomberg

Wilbert Ham
wilbert.h@kisi.co.id

I. Indonesian telco industry landscape

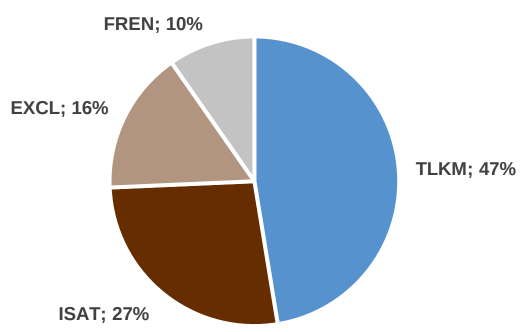
Following the completion of Indosat Ooredoo Hutchison (IOH) consolidation, the Indonesian telco industry is currently dominated by just four MNOs (mobile network operators). In 1H22, TLKM led the pack with a 50.5% share of mobile revenue, followed by ISAT/EXCL/FREN with 26.9%/16.8%/6.5% respectively. As the market leader, TLKM also possesses a massive customer base of 169.7mn subscribers, of which ISAT comes in the second place with a total of 96.2mn subscribers (an increase of around 30mn subscribers from the merger), followed by EXCL and FREN with 57.2mn and 34.7mn subscribers respectively. With 155 MHz, TLKM has the largest network, followed by ISAT/EXCL/FREN which respectively control 145/90/62 MHz.

Fig 1. Mobile revenue share among MNOs



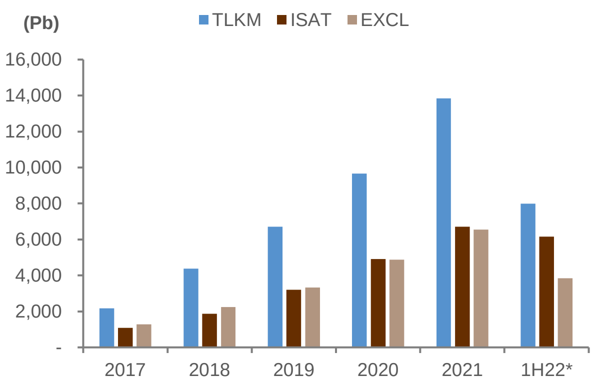
Note: ISAT include Hutch 3 post-IOH merger
Source: Company, KISI

Fig 2. MNOs subscriber share (1H22)



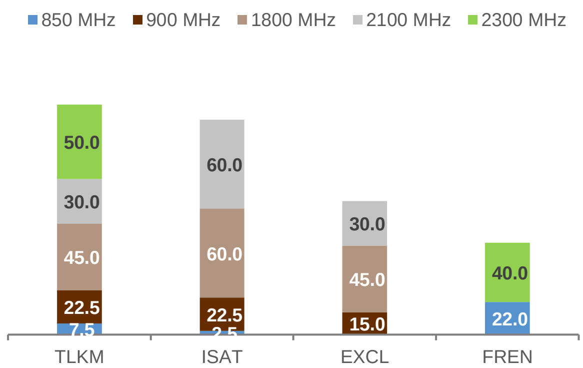
Source: Company, KISI

Fig 3. Data traffic (in petabyte)



Note: ISAT include Hutch 3 post-IOH merger
Source: Company, KISI

Fig 4. Spectrum ownership

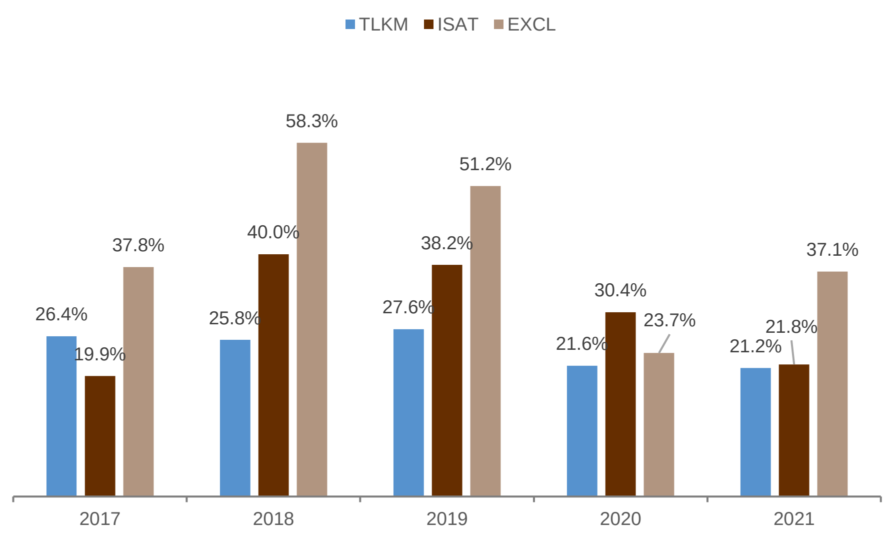


Source: Company, KISI

II. Healthier environment post-IOH consolidation

A healthier atmosphere is one of the most notable impacts of post-consolidation, as evidenced by a more rational behavior in terms of data pricing. Since a decade ago, the industry has been fiercely competitive, with MNOs engaging in price wars by either lowering prices or over-promoting in an effort to expand their customer base. Due to the subsequent ARPU and downward data yield trends over time, certain MNOs have experienced decreased profitability or even booked losses. On the other hand, MNOs have already made significant capex in this capital-intensive industry, investing approximately 20% - 30% of their annual revenue in the development of infrastructure, networks, and other technologies. Consequently, it is thought that some MNOs are yet to fully monetize their prior investments, one of which was the investment in the 4G rollout since 2014. This, in our opinion, is the cause of the de-rating that Indonesian telco players may have gone through in the past years, despite the fact that they may have outperformed their regional peers in terms of profitability.

Fig 5. MNO's huge capex to revenue ratio



Source: Company, KISI

Speaking to the majority of MNOs, they emphasized that the industry trend has begun going in the right direction. TLKM being the market leader has taken the lead on price rationalization, raising its ASP by about 10% whereas other competitors like ISAT and EXCL are following suit. Both companies have raised their headline prices several times this year, most noticeably in the months of March–April and June–July by an average of mid to high single digits. Only FREN is still considered to be in a robust customer acquisition mode, though we do not think this will significantly cause any disruption to the current industry conditions.

All MNOs concur that this industry-wide healthy conduct was designed to be long-lasting, thus we do not anticipate a return to the price wars era. Additionally, the majority of the MNOs continue to see room for further ASP increases, though will be more selective by keeping an eye on customer behavior following ASP increases and macroeconomic conditions.

The following factors, in our opinion, will ensure this healthy conduct lasts for the foreseeable future. First, MNOs now emphasize more on revenue over subscribers' share. TLKM lost about 6mn subscribers in 1H22 from FY21, yet the management indicated that the loss is still acceptable as they are currently focusing more on retaining high-value customers. To add, MNOs have stated that they will concentrate on keeping subscribers by providing them a better customer experience, as a result of their network quality improvement.

Second, despite mobile including data remains as their core business, MNOs have started to think about maximizing the value of their other businesses or focusing on their unique growth strategy. For example, TLKM has prepared a roadmap to help unlock its other businesses' value within five categories, including fixed mobile convergence (FMC), infrastructure, data centers, B2B IT services, and digico. On the other hand, EXCL continues to focus on expanding its FMC business. Third, MNOs will need to monetize their current business for forthcoming capex as the 5G rollout has started and may accelerate in the upcoming years.

Fig 6. Mobile data packages

TSEL

Data Package	GB	IDR	IDR/Mb
InternetMAX	3	14,900	5.0
	7	30,000	4.3
	11	42,000	3.8
	18	66,000	3.7
	35	83,000	2.4
	51	115,000	2.3
	70	138,000	2.0
Combo SAKTI	15	68,000	4.5
	20	88,000	4.4
	28	114,000	4.1
	51	124,000	2.4
	55	134,000	2.4
	74	166,000	2.2
	95	198,000	2.1
OMG!Nonton	23	114,000	5.0
	40	179,000	4.5
	75	229,000	3.1
OMG!Chat	6	49,500	8.3
OMG!Sosmed	10	74,500	7.5
	17	99,000	5.8
Internet OMG!	8	71,500	8.9
	17	113,000	6.6
	32	176,000	5.5
	62	222,000	3.6

EXCL

Data Package	GB	IDR	IDR/Mb
Xtra Combo Plus VIP	13	71,500	5.5
	23	101,000	4.4
	33	141,000	4.3
	61	192,000	3.1
	87	252,000	2.9
Xtra Combo Plus Reguler	13	59,900	4.6
	23	89,000	3.9
	33	132,000	4.0
	61	181,000	3.0
	87	242,500	2.8
Xtra Combo Flex	24	65,000	2.7
	42	95,000	2.3
	75	135,000	1.8
	115	185,000	1.6
	185	245,000	1.3

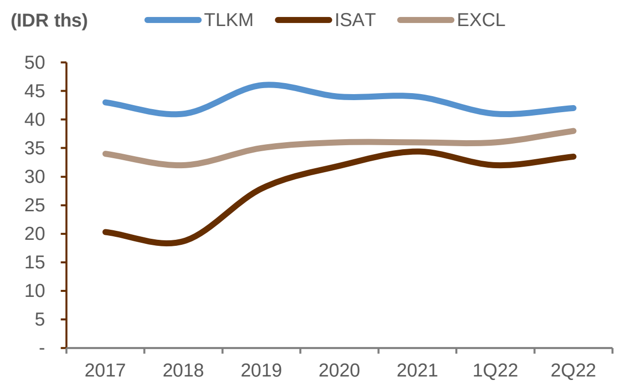
ISAT

Data Package	GB	IDR	IDR/Mb
Freedom Combo	4	27,500	6.9
	6.5	31,000	4.8
	12	42,000	3.5
	18	55,000	3.1
	23	64,000	2.8
	34	86,000	2.5
	45	108,000	2.4
	65	164,000	2.5
Freedom Internet	2	16,500	8.3
	4.5	27,500	6.1
	7	35,000	5.0
	12	45,000	3.8
	15	55,000	3.7
	21	66,000	3.1
	32	88,000	2.8
	49	110,000	2.2

Source: MNOs' website, KISI

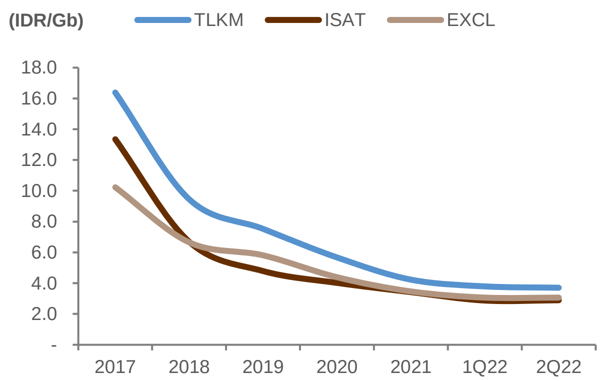
MNOs' ARPU has been quite stagnant for years, with TLKM and EXCL registering 0.6%/1.4% CAGR growth for FY17-21. ISAT, on the other hand, recorded 14.1% FY17-21 CAGR growth although this was after its ARPU significantly dropped to an all-time low of IDR 19k in 2018 due to the SIM registration policy. As a result, ISAT's ARPU difference has narrowed to only 20%/4% from TLKM's and EXCL's (from a previous 40%-50% discount). Regarding data yield, there has been a ~28% FY17-21 CAGR reduction across the board for all three operators, caused by price wars. TLKM booked the highest data yield at IDR 3.7k/MB in 1H22 (about 22%-30% premium to EXCL/ISAT's) as it caters to a more premium segment, enabling TLKM to enjoy a more resilient ARPU and profitability over its peers. Since all MNOs have begun to adjust their data pricing, we anticipate ARPU to rise over the upcoming periods. Rising ARPU may also be contributed from higher data consumption as people are more digitally engaged these days, whether for doing business, social networking, entertainment, etc. One indication is the fact that all MNOs recorded quarterly ARPU growth in 2Q22. On the other hand, despite the downward pressure on data yield may persist, we anticipate a more gradual reduction onwards.

Fig 7. ARPU increase QoQ in 2Q22



Source: Company, KISI

Fig 8. Declining data yield

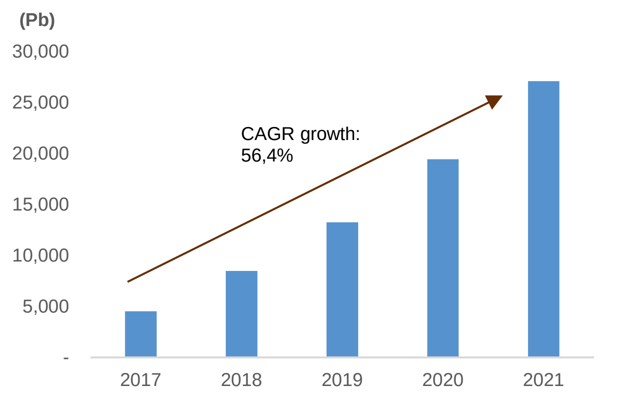


Source: Company, KISI

III. Positive data consumption trajectory to continue

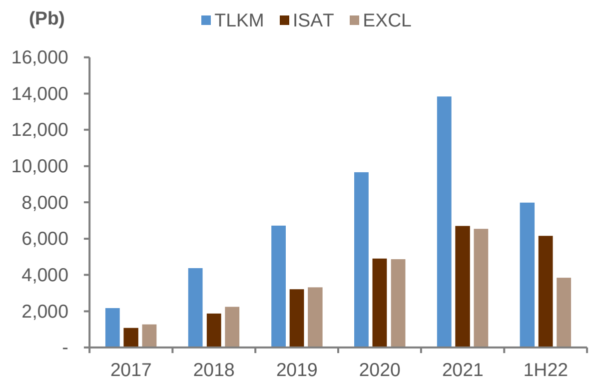
We maintain our upbeat outlook that Indonesia's data consumption will continue its positive upward trajectory. The three operators under the coverage have experienced significant growth in data traffic of ~56.4% FY17-21 CAGR, which was attributed to rising smartphone penetration and increased demand for internet access. It is worth mentioning how the Covid-19 outbreak since 2020 has contributed to accelerating digital adoption and connectivity. People have been urged to engage in activities like working from home (WFH) and looking for in-home entertainment due to the implementation of mobility restrictions (e.g., social media, over-the-top services etc.), in which some of these behaviors have been persistent. Furthermore, the potential for future data consumption growth may come from certain areas outside Java, particularly the frontier, outermost, and least developed areas (3T) which may not yet have good cellular connectivity.

Fig 9. Significant data traffic growth



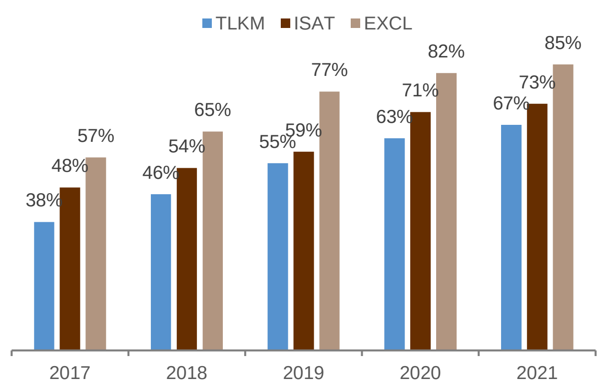
Source: Company, KISI

Fig 10. Data traffic per MNO



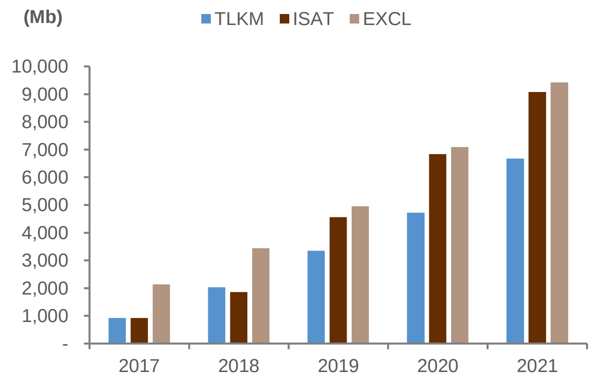
Source: Company, KISI

Fig 11. Data to total revenue estimation



Source: Company, KISI

Fig 12. Monthly data usage per subs (Mb)



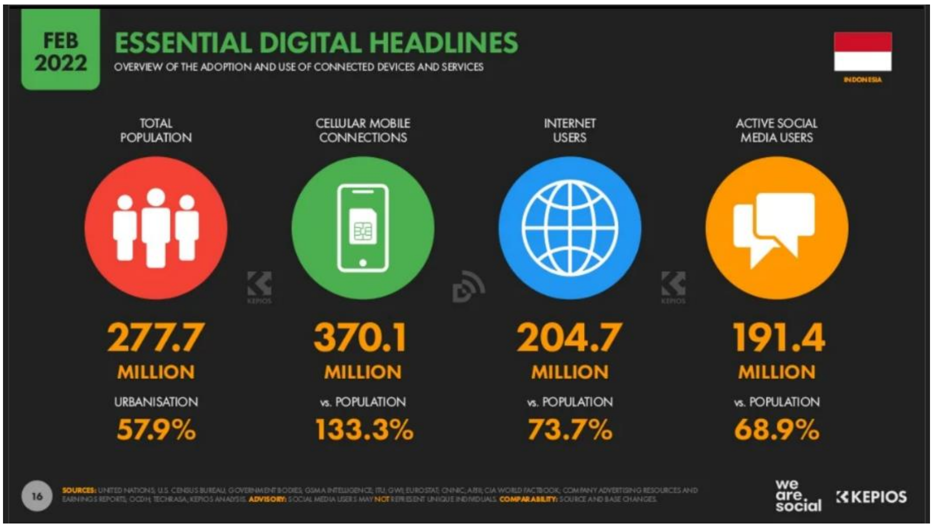
Source: Company, KISI

Digital in every aspect of life

Mobile and digital adoption are expected to continue expanding fast in the following years. Since the Covid-19 outbreak, digital connectivity has become more essential than ever and a part of every aspect of one's daily life. Currently, a lot of activities are done differently, moving from offline to online, including employment, shopping (e-commerce), leisure (social media, movie, music, gaming, etc.), financial services, education, health and other things.

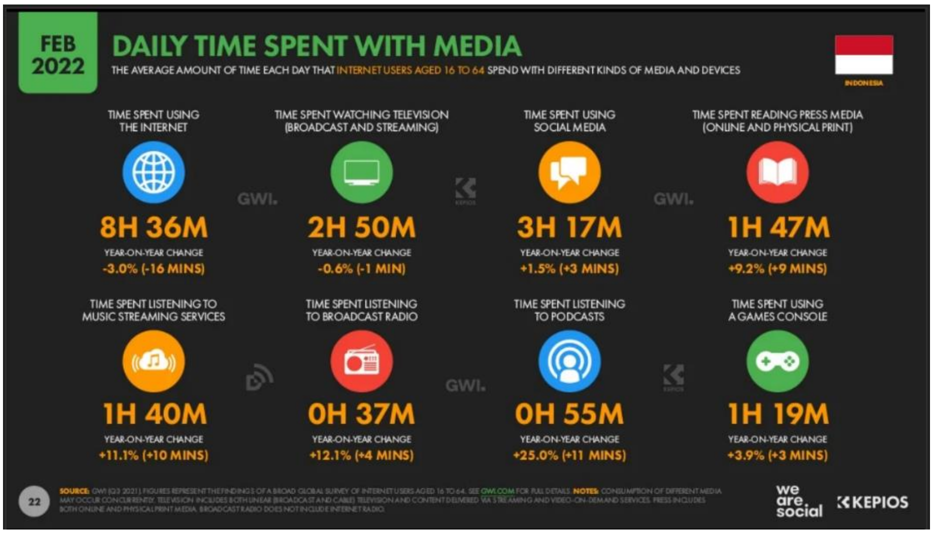
Indonesia with its very large population is one of the countries with the largest social media users. Quoting from wearesocial.com, Indonesia has around 204.7mn internet users (73.7% of population) with 191.4mn active social media users (+21mn; +12.6% YoY) as of Feb-22. The average daily time spent accessing the internet is ~9hours, of which ~3 hours are spent on social media. The young population in Indonesia is predicted to drive continued growth in the number of social media users ahead. In addition to social media, the recent rise in start-ups or businesses based on digital apps may be a sign that data consumption will continue climbing in the future.

Fig 13. Indonesia being huge market for telco and digital



Source: We are social

Fig 14. Increasing time spent on social media

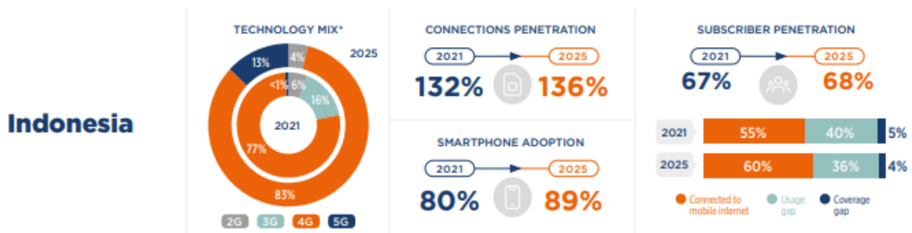


Source: We are social

Capturing the outer Java market

According to GSMA intelligence, despite Indonesia having a relatively high connection penetration of 132% and smartphone adoption that has already reached 80% of the population in FY21, however the usage gap is still at 40%. This indicates that only 55% of the population has a mobile internet connection, despite the fact that approximately 95% of the country has access to mobile broadband. We think there are various reasons for this, including 1) a lack of digital literacy, especially for elderly or rural populations, and 2) a lack of affordability among low-income households. Closing this usage gap may be a priority as digital connectivity may deliver benefits to the economy. We observe that the Indonesian government has been focusing on those areas, encouraging operators to expand the coverage in rural areas. This step will ensure the country's digital transformation roadmap ahead. Not to mention that government has a vision that part of MSMEs will be digitalized in the upcoming years. The ex-Java market, whether in 3T or non-3T areas, will be attractive to be further penetrated, although will require further investment in infrastructure and network from the MNOs. Among three MNOs, we believe TLKM currently has the best and largest network outside of Java, with an estimated 50:50 business split between Java and ex-Java.

Fig 15. Indonesia being huge market for telco and digital



Source: GSMA Intelligence

IV. Other trends in the industry

Rising Fixed-mobile convergence (FMC) services

One of the recent trends in the industry is fixed mobile convergence (FMC), providing customers seamless connectivity between fixed and mobile broadband. The idea is to make it simple for users to access data services and entertainment content from any location, both when they are at home or on the go. We notice that operators are beginning to adopt this strategy to leverage their subscribers base, branching out from just the mobile space. Additionally, as most subscribers under FMC will be prepaid, this may result in higher ARPU.

Among three operators, EXCL may have taken the lead in FMC plan, through XL Satu. XL Satu provides its customers with unlimited home WIFI bundled with mobile cellular data that can be divided by multiple numbers. To add, EXCL offers FTTH services via its XL Home entertainment box. To strengthen its FMC position, EXCL recently completed the acquisition of Link net, and will soon launch XL-First Media product collaboration on Oct-22. We believe EXCL's future top-line growth will be ensured by its focus on maintaining its position as the leading converged operator in Indonesia.

The other operators also recognize FMC as an enormous potential growth. TLKM, the industry's top FTTH provider with more than 85% market share, has indicated its plan to move IndiHome under TSEL. The integration may provide good synergy, as it can leverage TSEL's sizable customer base of ~170mn subscribers. In the first phase, TLKM's FMC strategy has been done by cross-selling and product bundling. ISAT, on the other hand, is also interested to tap into this product in onwards.

Fig 16. EXCL focus on FMC plan

Source: Company

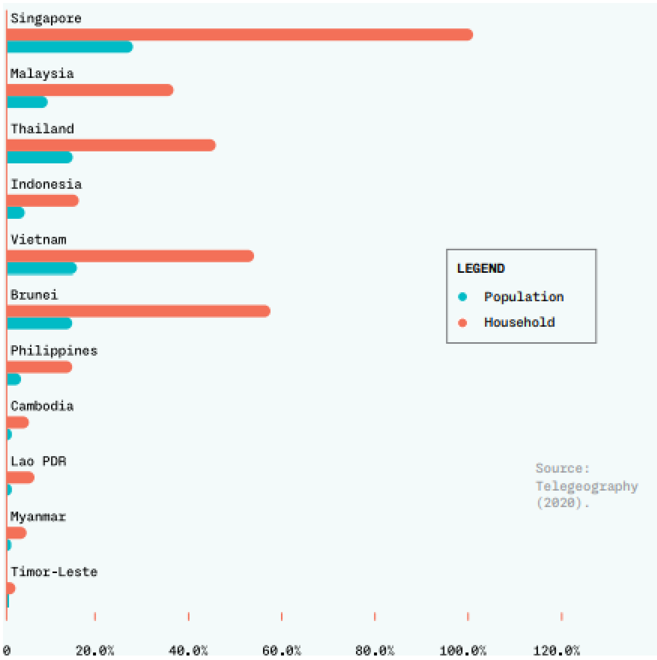
Fig 17. Bundling package from IndiHome and HALO

Source: Company

FTTH services

According to World Bank, only 16% of households in Indonesia have access to fixed broadband as of 2020, which is still relatively lower compared to regional peers. This we believe may create space for the segment to grow moving forward, however, we expect the growth to be slower. We think that FTTH penetration in the Java region may have been quite high, hence FTTH providers may have looked for opportunities outside of Java. However, difficulties persist in terms of the infrastructure needed. One challenge for FTTH providers to upscale coverage is that they will require a costly investment in fiber network infrastructure. In addition, as FTTH's ARPU is significantly higher than mobile, it raises a concern about whether it will suit the affordability of the outside Java subscribers.

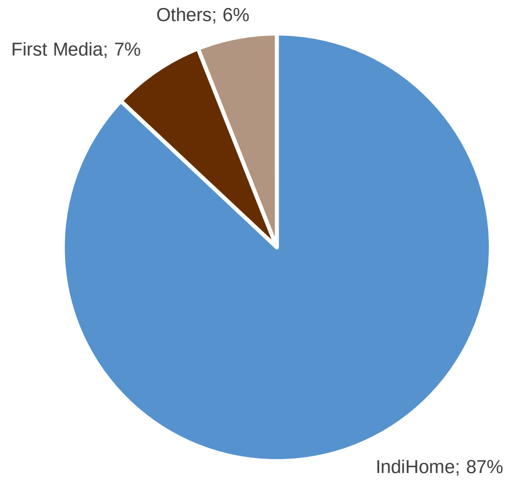
Fig 18. Indonesia being huge market for telco and digital



Source: World bank

The Indonesian FTTH market is highly concentrated in terms of market share despite having a large number of providers. With an undeniable more than 85% of market share, IndiHome has emerged as the only provider with nationwide coverage. As of 1H22, it reached more than 35mn home pass in 499 cities and districts (about 97.1% of Indonesia) with a total of 8.9mn subscribers. We believe that IndiHome's superior performance results from its capitalizing on TLKM's 170,885km extensive fiber optic backbone networks. Coming in as the second in the industry is First Media, commanding a market share of about 8%. It covers about 27 cities mostly in Java and Sumatra, with more than 3mn home pass and 838k subscribers. In addition to them, other well-known brands in the industry include MNC Play, Biznet, and My Republic, each of which has 200k – 300k subscribers and is estimated to hold a total of 5% market share.

Fig 19. Fixed broadband market share (2020)

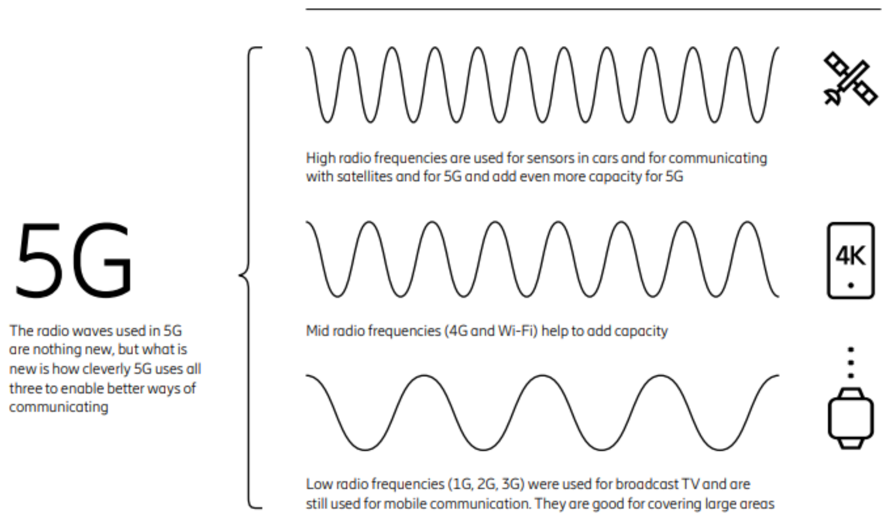


Source: World Bank, KISI

5G outlook: the future, but not right now

Globally, the 5G rollout has been accelerating notably in the developed market. In contrast, Asia Pacific including Indonesia, is still in the early stages. There are many obstacles to overcome before a widespread rollout may take place, mainly in the availability of spectrum and infrastructure. According to Ericsson, the 5G network makes use of three distinct radio frequency ranges - low, mid, and high band, each of which has its own function. The low-band is suitable for large areas coverage, the mid-band provides coverage and capacity, while extremely fast broadband speeds are enabled by the high-band. In Indonesia, the 700MHz (low-band) that suits 5G is still being used by analog TV broadcast, which is now being freed-up through the analog switch-off (ASO) initiative. This spectrum is likely to be auctioned out later in 2023. Meanwhile for the mid-band (3.5 GHz) that is currently being used for satellite purposes, the reallocation may take some time due to its long-term contracts. Aside from those difficulties, the current low affordability and penetration of 5G smartphones are likely to slow down the 5G roll-out in the interim.

Fig 20. 5G needs wide range of frequencies

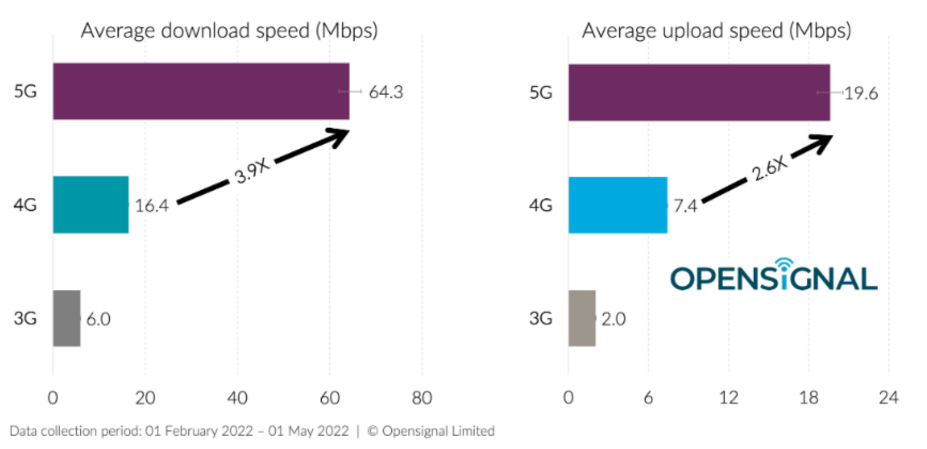


Source: Ericsson

Although a more structural 5G expansion will not be observed in the near future, 5G should still be the preferred future technology. Noting from Ericsson, 5G has five essential features including faster data speeds, availability – less network downtime due to combined bands, security, reliability – much lower latency hence making it essential to other than mobile industries, and better capability. Although 5G is just launched over a year ago in Indonesia, the finding from Opensignal indicates a significant uplift in mobile experience compared to the earlier technologies. The average download speed over 5G is 64.3 Mbps, which is 3.9-10.8 times quicker than over 4G/3G. Similar improvement is also visible in the average upload speed of 19.6 Mbps, 2.6/9.8 times quicker than 4G/3G. The user experience is also improved when streaming videos, with very good (65-75) quality on 5G connections compared to merely fair (40-55) quality on 4G devices.

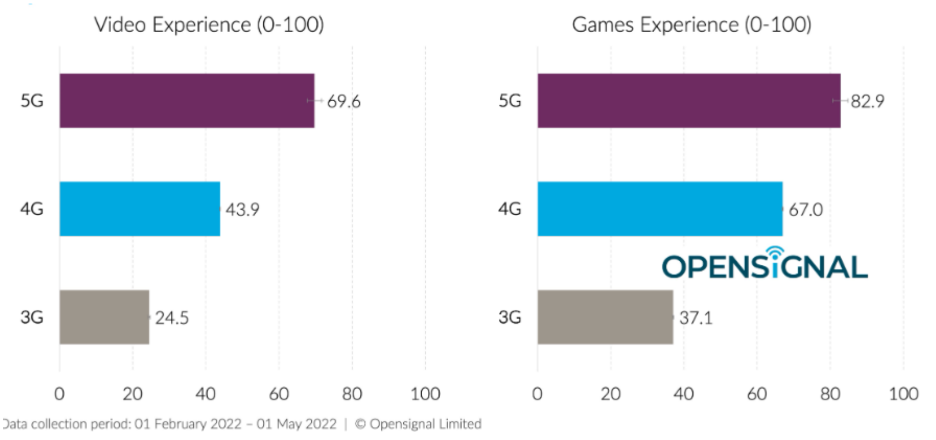
Although several studies show that 5G may greatly increase mobile network performance compared to the previous technology, we think 5G aggressive roll-out is not visible for the aforementioned reasons. MNOs currently focuses more on the shutdown of their 3G, migrating their customers to 4G which should promote better efficiency going forward. We believe MNOs have also been concentrating on enhancing their network quality to offer the finest customer experience. This is also consistent with GSMA intelligence’s view that, before transitioning to 5G, 4G penetration will expand to 83% in 2025 (from 77% back in 2021).

Fig 21. 5G provides much better experience than 4G/3G



Source: Opensignal

Fig 22. 5G provides much better experience than 4G/3G



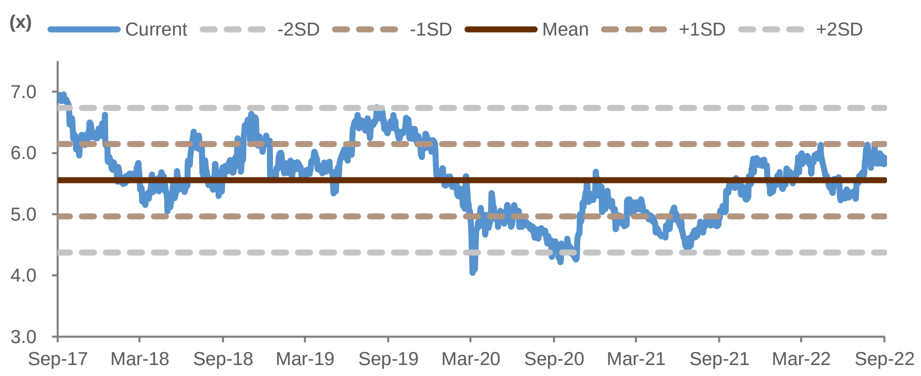
Source: Opensignal

V. Re-initiate telco sector coverage with OW recommendation

We resume our coverage on telco sector with OW recommendation. We favor telco sector on the back of the improving industry conditions post-IOH consolidation. Proofs of healthier conduct in the industry have been visible, as most operators have left behind price wars and actively raised prices since the end of 2021. TLKM has raised prices by an average of 10% with EXCL and ISAT following suit. The Management also emphasized that this current condition will continue to be sustainable. On the other hand, strong data growth should persist due to the importance of digital connectivity in day-to-day life.

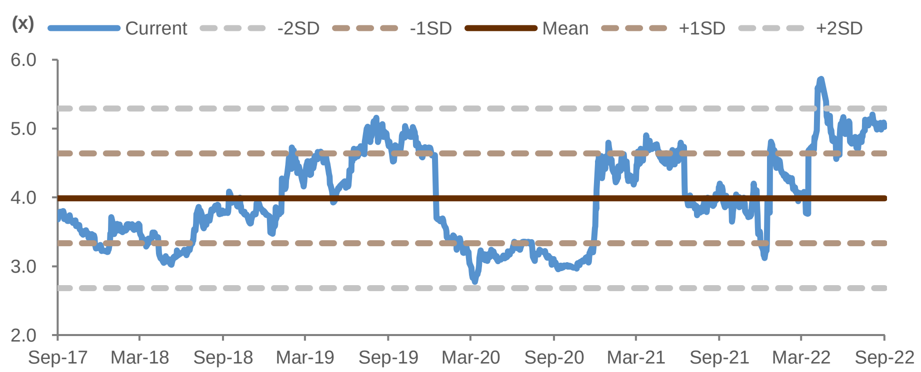
EXCL and ISAT are among our top picks in the sector. We forecast that they will be able to record solid top-line growth on the back of rising data and ARPU. EXCL should continue to see significant convergence penetration, supported by improved network quality and synergy with First Media. While for ISAT, the seamless network integration will upscale its capability to penetrate the market more deeply along with cost savings that may improve EBITDA margin in the coming years. For TLKM, we are waiting for more positive outcomes from its recent business transformation that could boost its top-line growth ahead.

Fig 23. TLKM FY23F EV/EBITDA



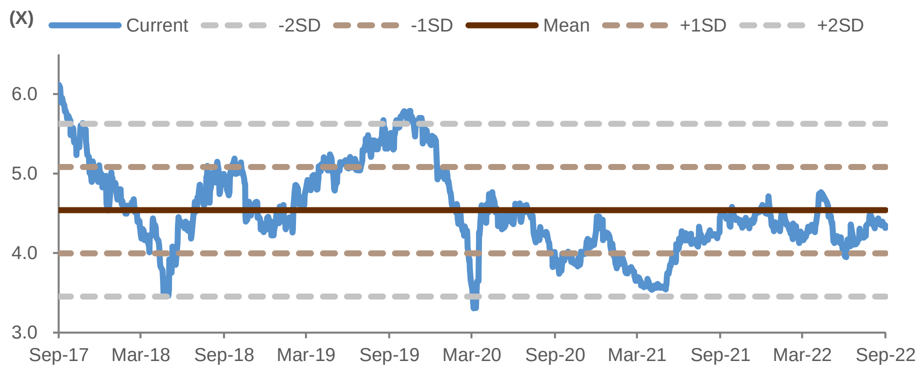
Source: Bloomberg, KISI

Fig 24. ISAT FY23F EV/EBITDA



Source: Bloomberg, KISI

Fig 25. EXCL FY23F EV/EBITDA



Source: Bloomberg, KISI

Fig 26. Peers comparison

Company	Bloomberg ticker	Market Cap (US$mn)	EV/EBITDA (x) FY22F	EV/EBITDA (x) FY23F	PE (x) FY22F	PE (x) FY23F	Pb (x) FY22F	Pb (x) FY23F	EPS growth (%) FY22F	EPS growth (%) FY23F	EBITDA margin (%) FY22F	EBITDA margin (%) FY23F	ROE (%) FY22F	ROE (%) FY23F
Indonesia														
TELKOM INDONESIA PERSERO TBK	TLKM IJ	29,204	6.1	5.7	16.4	15.2	3.3	3.1	7.4	8.3	53.1	53.5	20.1	20.2
INDOSAT TBK PT	ISAT IJ	3,800	5.5	5.0	23.4	32.0	2.2	2.1	(75.8)	(26.9)	41.6	42.5	4.8	6.2
PT XL AXIATA TBK	EXCL IJ	1,792	4.5	4.3	20.7	16.5	1.3	1.3	(0.3)	25.5	50.6	51.1	6.6	7.3
Simple average			**5.4**	**5.0**	**20.2**	**21.2**	**2.3**	**2.1**	**(22.9)**	**2.3**	**48.4**	**49.0**	**10.5**	**11.2**
Weighted average			**6.0**	**5.6**	**17.4**	**17.1**	**3.1**	**2.9**	**(2.1)**	**5.3**	**51.7**	**52.2**	**17.7**	**18.0**
Malaysia														
MAXIS BHD	MAXIS MK	6,527	9.9	9.6	23.2	20.8	4.5	4.6	(2.4)	11.7	41.0	41.1	18.9	21.8
DIGI.COM BHD	DIGI MK	5,932	10.5	9.6	25.6	21.8	41.7	38.9	(9.4)	17.8	47.3	50.8	163.3	182.2
AXIATA GROUP BERHAD	AXIATA MK	5,666	5.3	5.1	20.1	17.0	1.4	1.4	56.2	18.7	44.2	44.4	6.6	7.6
Simple average			**8.6**	**8.1**	**23.0**	**19.8**	**15.9**	**14.9**	**14.8**	**16.0**	**44.2**	**45.4**	**62.9**	**70.5**
Weighted average			**8.7**	**8.2**	**23.0**	**19.9**	**15.7**	**14.8**	**13.6**	**15.9**	**44.1**	**45.3**	**62.3**	**69.9**
Singapore														
STARHUB LTD	STH SP	1,448	6.9	6.1	18.4	14.4	3.4	3.2	(22.0)	28.1	20.3	21.6	20.2	24.4
SINGAPORE TELECOMMUNICATION	ST SP	31,590	13.8	13.1	16.3	15.7	1.5	1.5	13.7	3.6	25.6	26.1	8.2	9.4
Simple average			**10.4**	**9.6**	**17.4**	**15.0**	**2.4**	**2.3**	**(4.1)**	**15.9**	**22.9**	**23.9**	**14.2**	**16.9**
Weighted average			**13.5**	**12.8**	**16.4**	**15.6**	**1.6**	**1.6**	**12.1**	**4.7**	**25.4**	**25.9**	**8.7**	**10.0**
Thailand														
TOTAL ACCESS COMMUNICATION	DTAC TB	2,794	6.0	5.8	28.8	26.0	5.3	5.2	6.9	10.9	36.3	36.9	16.9	20.6
ADVANCED INFO SERVICE PCL	ADVANC TB	15,484	7.6	7.2	21.1	18.9	6.7	6.3	1.0	11.9	50.0	50.1	32.4	34.4
TRUE CORP PCL	TRUE TB	4,357	8.8	8.2	NA	NA	2.1	2.1	(192.5)	70.1	41.2	42.4	(4.5)	(1.4)
Simple average			**7.5**	**7.1**	**25.0**	**22.4**	**4.7**	**4.5**	**(61.5)**	**31.0**	**42.5**	**43.1**	**14.9**	**17.8**
Weighted average			**7.6**	**7.2**	**22.3**	**20.0**	**5.6**	**5.4**	**(35.5)**	**23.0**	**46.6**	**47.0**	**23.4**	**25.8**
Phillipines														
GLOBE TELECOM INC	GLO PM	5,315	6.7	6.3	13.8	14.8	2.5	2.4	(2.0)	(6.7)	46.8	47.4	18.0	17.2
PLDT INC	TEL PM	6,587	6.2	5.8	16.3	11.9	2.7	2.5	(23.2)	36.9	49.7	50.7	21.5	22.2
CONVERGE INFORMATION AND CC	CNVRG PM	2,190	7.4	6.0	14.2	11.7	3.0	2.4	27.9	21.5	56.2	56.5	23.5	22.5
Simple average			**6.8**	**6.1**	**14.8**	**12.8**	**2.7**	**2.4**	**0.9**	**17.2**	**50.9**	**51.5**	**21.0**	**20.6**
Weighted average			**10.6**	**9.7**	**24.1**	**20.8**	**4.3**	**3.9**	**(11.7)**	**29.0**	**79.7**	**80.8**	**32.9**	**32.7**
China														
CHINA TELECOM CORP LTD-H	728 HK	46,390	2.4	2.3	8.2	7.3	0.5	0.5	(1.6)	11.8	27.5	27.0	6.5	7.0
CHINA MOBILE LTD	941 HK	142,401	1.7	1.6	7.7	7.2	0.8	0.7	8.1	7.8	35.8	35.3	10.2	10.5
CHINA UNICOM HONG KONG LTD	762 HK	14,501	0.6	0.6	6.2	5.5	0.3	0.3	14.3	13.0	28.6	28.1	4.9	5.3
Simple average			**1.6**	**1.5**	**7.4**	**6.7**	**0.5**	**0.5**	**6.9**	**10.9**	**30.6**	**30.1**	**7.2**	**7.6**
Weighted average			**2.3**	**2.2**	**10.0**	**9.2**	**0.9**	**0.8**	**8.2**	**11.8**	**43.3**	**42.6**	**11.6**	**12.0**
Telco average			**6.7**	**6.2**	**17.9**	**16.3**	**4.8**	**4.5**	**(11.0)**	**15.6**	**39.9**	**40.5**	**21.8**	**24.1**

Source: Bloomberg, KISI

Key risks

Competition

Although the majority of MNOs concur that the industry is headed in the right direction and price wars are a thing of the past, we are nonetheless wary and consider competition as one of the biggest threats to the industry. The fact that MNOs may be now competing for the ex-Java market and the population there is more price sensitive, we are not ruling out the possibility of price competition in those areas.

Purchasing power

The mid-to-low end customers could potentially suffer from recent rising staples and utility prices (fuel, electricity, etc.), which could reduce their purchasing power, leading to lower mobile broadband usage.

Regulation

Telco industry is highly regulated mainly by the Ministry of Communications and Informatics, whether it's the spectrum, infrastructure, licensing or etc. Any regulatory changes may affect MNOs' operations and performances.

Execution

As a capital-intensive industry, MNOs typically spend 20%-30% of sales on capex. Any execution error may result in losses.

Interest rate

Debt may serve as one source of capital for MNOs. Because of this, future rising benchmark interest rates may cause finance costs to rise.

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Korea Investment & Sekuritas Indonesia

Telkom Indonesia (TLKM)

Finding the next growth engine

The uncontested champion in telco industry

TLKM should retain its dominant position in the industry, on the back of its vertically integrated business model. Aside from mobile, TLKM also engages in telco infrastructure businesses, allowing it to own an extensive infrastructure and network coverage. As of 1H22, TLKM operated more than 255k BTS, ~170k km of fiber-optic backbone network, two satellites, and about 36k towers. Consequently, TLKM has covered almost all populations in Indonesia.

Transformation into digital telco as the next growth engine

Despite TLKM's dominance in the industry, it has struggled to book robust top-line growth in recent years (2.8% CAGR FY17-21). This is due to a significant decline in legacy have offset data and IndiHome business significant growth. As a result, it has hindered potential re-rating for TLKM share price. Management has recently rolled out a business transformation roadmap, aiming to enhance its revenue and EBITDA growth ahead, as well as unlock values from TLKM's subsidiaries. We believe the business transformation is positive, despite may take time before it could translate into substantial growth.

Developing data center business

At the moment, TLKM operates a number of DCs, both domestic and international, with a combined capacity of about 55MW (including 22MW from HDC phase 1 in Cikarang). Given the enormous potential of DC industry, TLKM plans to expand its capacity to 400MW, capturing 40% of the market by 2030. Although this is a tremendous opportunity, we note that it is not without risks given its significant investment required, execution, and potential intense competition.

Re-initiate coverage with HOLD call and TP of IDR 4,900

Our TP for TLKM is derived via 10-year DCF valuation with 13.1% WACC and 2% LT terminal growth. This also implies 5.9x FY23F EV/EBITDA. Despite we like TLKM for its dominance, by owning an extensive infrastructure, the finest network quality, and the highest profitability, TLKM has had difficulty generating robust revenue growth in recent years. The undergoing business transformation along with DC business development is positive, in our view, though may take some time before it results in greater growth. As the result, we are doubtful that re-rating will take place soon. We will turn more optimistic on TLKM if there is any meaningful progress in its top-line growth trajectory.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	136,462	143,210	147,556	155,094	164,391
EBITDA (IDR bn)	72,080	75,723	80,314	84,818	90,581
OP (IDR bn)	43,188	43,907	46,241	48,841	52,968
NP (IDR bn)	20,804	24,760	25,791	26,684	29,080
Net debt/(cash) (IDR bn)	29,256	14,380	12,100	5,287	(3,139)
EBITDA margin (%)	52.8	52.9	54.4	54.7	55.1
OP margin (%)	31.6	30.7	31.3	31.5	32.2
ROE (%)	20.6	22.1	20.5	20.0	20.7
Dividend yield (%)	3.5	3.8	3.4	4.7	4.9
EPS (IDR)	210.0	249.9	260.4	269.4	293.6
chg. (%, YoY)	3.7	1.7	5.3	5.6	8.4
BPS (IDR)	1,035.0	1,228.0	1,316.4	1,377.5	1,455.5
DPS (IDR)	154.1	168.0	150.0	208.3	215.5
PE (x)	21.0	17.6	16.9	16.4	15.0
PB (x)	4.3	3.6	3.4	3.2	3.0
EV/EBITDA (x)	7.9	6.5	6.1	5.7	5.3

Company Update

Telcos

19 Sep 2022

12M rating	**HOLD (Re-Initiate)**
12M TP	**IDR 4,900**
Upside	**11.1%**

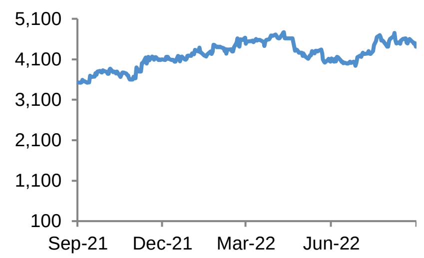
Stock Data

JCI (Sep 19)	7,169
Stock price (Sep 19, IDR)	4,410
Market cap (IDR bn)	436,864
Shares outstanding (mn)	99,062
52-week high/low (IDR)	4,850 / 3,390
6M avg. daily turnover (IDR bn)	568.1
Free float (%)	47.9
Major shareholders (%)	
Republic of Indonesia	52.1

Performance

	1M	6M	12M
Absolute (%)	1.1	1.0	35.2
Relative to JCI (%p)	-0.5	-7.1	9.3

TLKM stock price



Source: Bloomberg

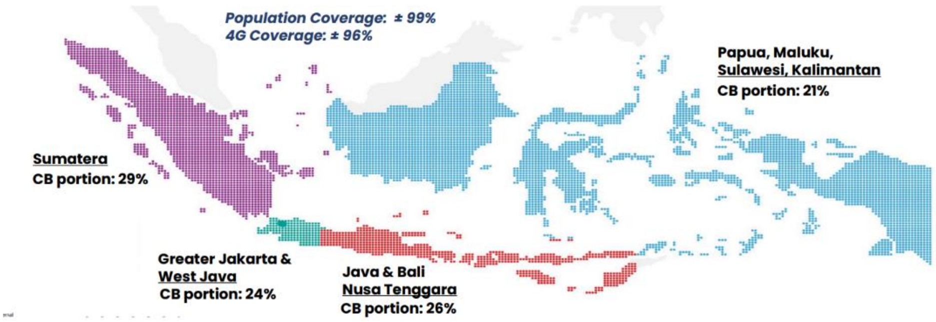
Wilbert Ham
wilbert.h@kisi.co.id

I. The uncontested telco operator

TLKM is the defending champion and should retain its dominant position in the industry, supported by its vertically integrated business model. Not only playing in the data and mobile business, but TLKM also engaged in telco infrastructure (tower, fiber, submarine cable, etc.), allowing it to have extensive infrastructure and network coverage built around the nation. This has been the edge we believe for TLKM especially when it comes to expansion plans, that may be not owned by the other competitors in the industry.

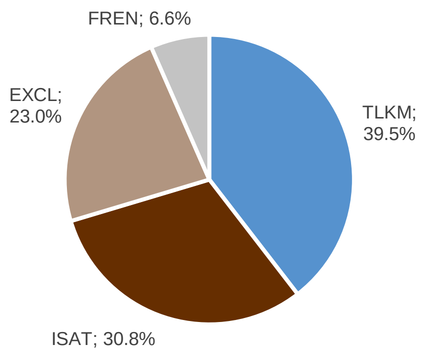
As of 1H22, TLKM has more than 255k BTS on air, two satellites, more than 170k km of backbone fiber optic, and about 36k towers under Mitratel (MTEL). Through Indihome, it has fixed broadband access covering nationwide of 499 cities in Indonesia (~97% of Indonesia). In addition to the mobile segment, TSEL has covered almost all population in Indonesia, with 96% of 4G coverage, resulting in TSEL's capability to acquire a massive subscriber base of 170mn, much higher than the second player, ISAT with only 96.2mn subscribers.

Fig 1. TLKM nationwide coverage



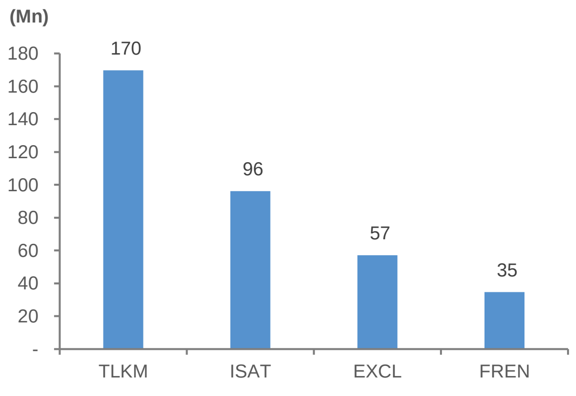
Source: Company

Fig 2. BTS market share (1H22)



Source: Company, KISI

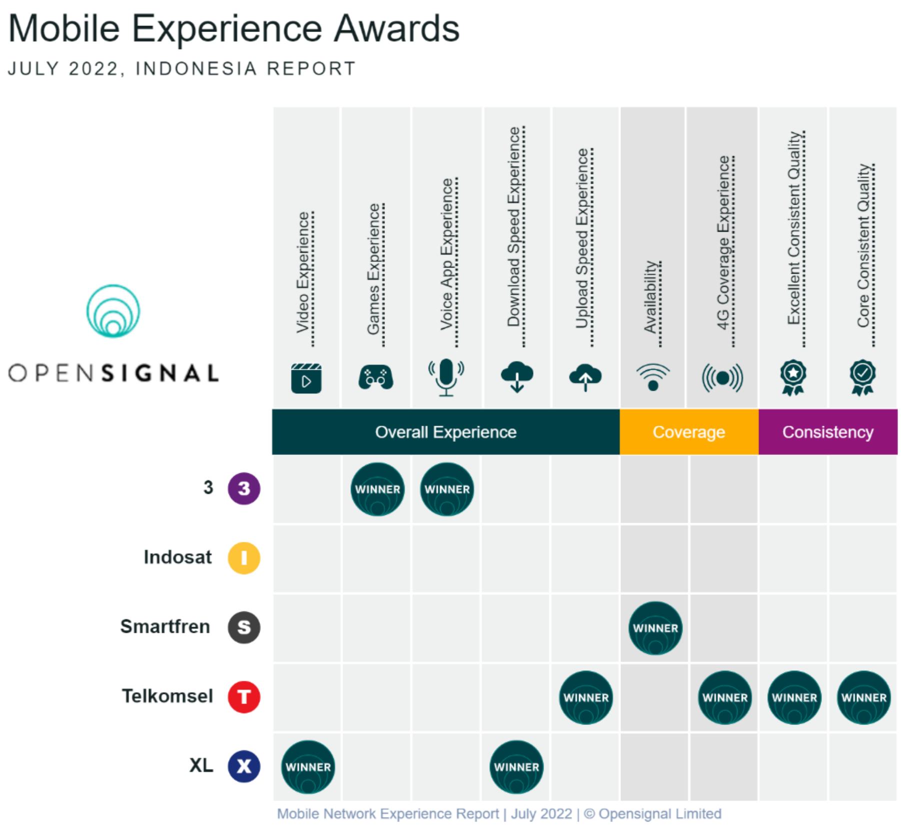
Fig 3. No of subscribers (1H22)



Source: Company, KISI

Leveraging its extensive infrastructure and networks, TLKM manages to have superior network quality. It has long become the best operator in Indonesia to provide widespread connectivity, we believe either in terms of speed or customer experience. Noting from opensignal report, TLKM has been the only operator who has won the most, whether in download, upload or other data services. This is despite EXCL managing to win in the download category in its latest report. We expect TLKM to keep its superior network quality onwards.

Fig 4. Superior network quality from TSEL

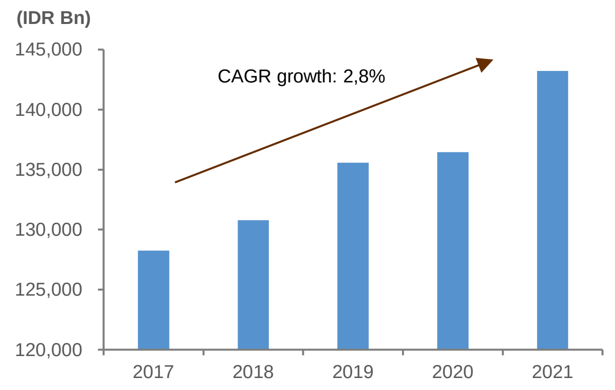


Source: Opensignal

II. Transformation into digital telco as the next growth engine

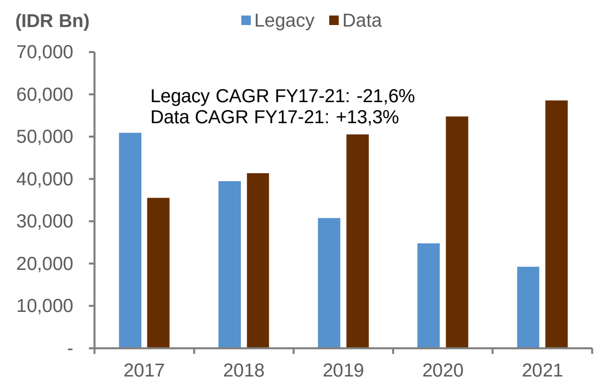
Despite its dominance and being the most profitable operator in Indonesia, we see TLKM has struggled to enhance its growth profile in recent years. Top-line growth has been low with 2.8% CAGR 2017-2021, in which robust growth in data has been offset by the significant decline from legacy business (voice and SMS). Consequently, this has been a challenge for TLKM to enhance its growth onwards.

Fig 5. TLKM revenue growth



Source: Company, KISI

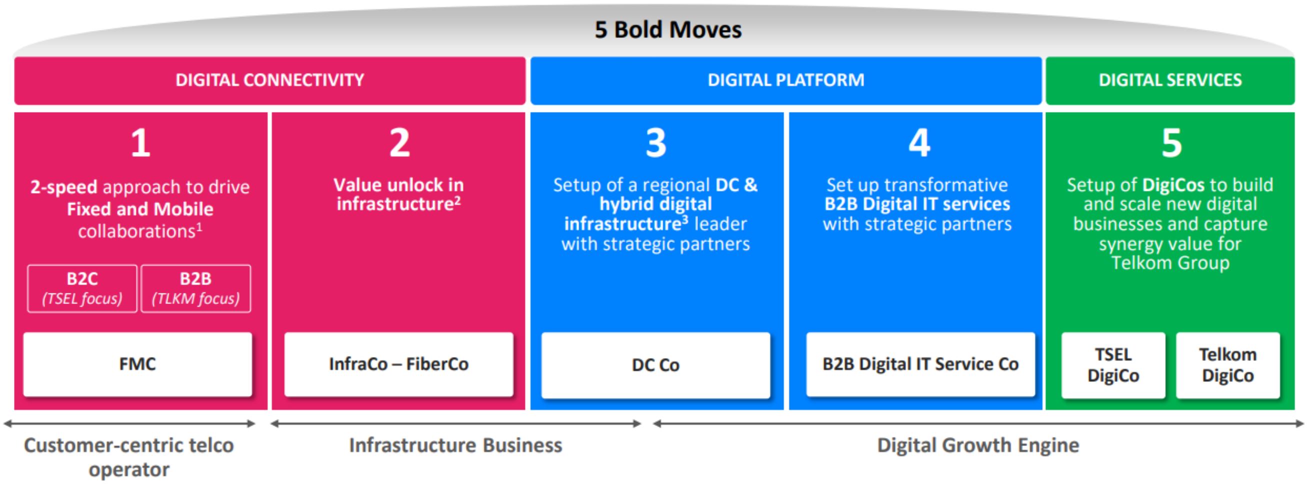
Fig 6. Legacy and data revenue



Source: Company, KISI

On this reason, management has rolled out a business roadmap, transforming TLKM not only as mobile telco players, but towards a digital telco company that may pose higher growth in the following future, aiming for both revenues as well as EBITDA growth. In addition, it was hoped to bring more value from TLKM's other subsidiaries. The transformation includes 5 bold moves, covering 5 segments which are mobile – FMC, infrastructure (towerco, fiberco), data center business, B2B digital business, and digico.

Fig 7. TLKM business transformation roadmap



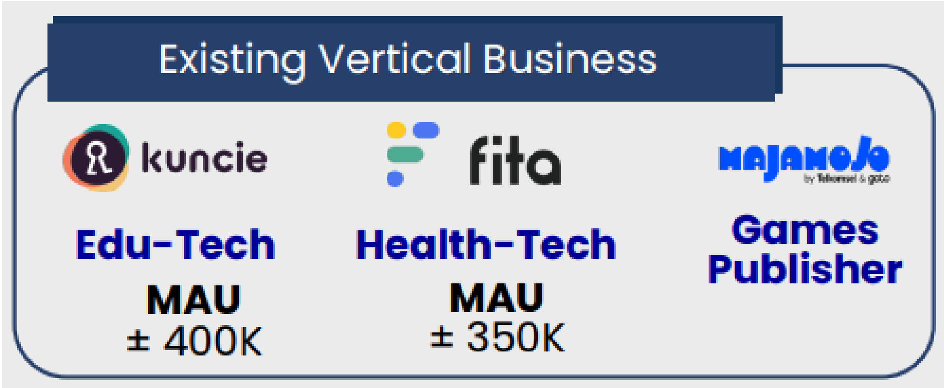
Source: Company

From the mobile segment, the idea is to focus on FMC plan. In the first phase, it incorporates the cross-selling and product bundling between TLKM and TSEL, as IndiHome is currently under TLKM. Management highlights its plans to transfer IndiHome under TSEL which is still in the negotiation phase with Singtel. This plan may provide ease and synergy to enhance its FMC business ahead. Management also highlighted that in order to maintain growth in fixed broadband, it will enter the lower segments through fixed wireless access (Telkomsel Orbit), which has lesser risks compared to IndiHome. On Indihome's outlook, we still see positive growth ahead, despite will be on a slower pace compared to the previous years'.

On the infratstructure side, MTEL has become the largest tower company in Indonesia after finishing the towers consolidation from TSEL, with 6k towers in the last phase. We expect MTEL's business to remain stable with growth coming from MNOs expansion to underpenetrated areas and bundling solutions (for example fiberized towers). On the infrastructure side, we expect TLKM to focus on fiberization next.

TLKM has also been expanding its business into digital space. One of which is the investment in GOTO, with the goal to build TLKM's digital ecosystem. Through Telkomsel Mitra Inovasi (TMI), it also invests in Indonesian startups, such as Kredivo, Privy ID, Qlue, Halodoc, Tanihub, TADA, SiCepat, and Inspigo. The latest was the establishment of PT Telkomsel Ekosistem Digital, with an official brand of INDICO. Encouraging its development in the first wave, INDICO focus on three digital industry sectors, namely edu-tech (Kuncie), health-tech (Fita) and gaming (Majamojo).

Fig 8. INDICO digital businesses



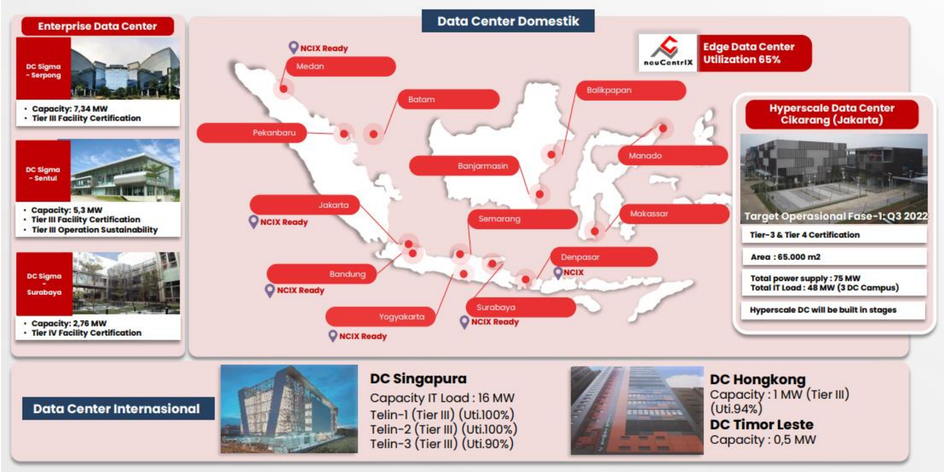
Source: Company

III. Developing data center business

After the value unlocking of Mitratel through IPO in 2021, TLKM keeps on developing its other businesses, one of which is the data center business. TLKM initially stepped into data center business through its several subsidiaries (TelkomSigma and Telin) and recently just established NeutraDC, its direct subsidiary that will be later on the main data center business. The idea is all TLKM's previous DC assets will be transferred to NeutraDC, in which the domestic from TelkomSigma has been done, while the rest from Telin (international data center) will be done next year. The management also highlights its plan to unlock its DC business either through IPO or strategic partnership later on in the upcoming years.

At current, TLKM owns several DCs both domestic and international (Singapore), accounting for a total capacity of ~33MW. TLKM is currently developing its Hyperscale Data Center/HDC (certified Tier 3 and Tier 4), with 1st phase has been finished in 1H22 adding ~22MW. TLKM's HDC is expected to have a total of 75MW capacity, once all three phases have finished. Currently, TLKM estimates it owns 15% of DC market share in Indonesia. The target is to have a total capacity of 400MW, being the leader in DC business with a 40% market share in 2030. After HDC in Cikarang, TLKM also targets to build new DCs in several areas, such as Batam, Surabaya, IKN (new capital city of Indonesia), Jakarta and Manado.

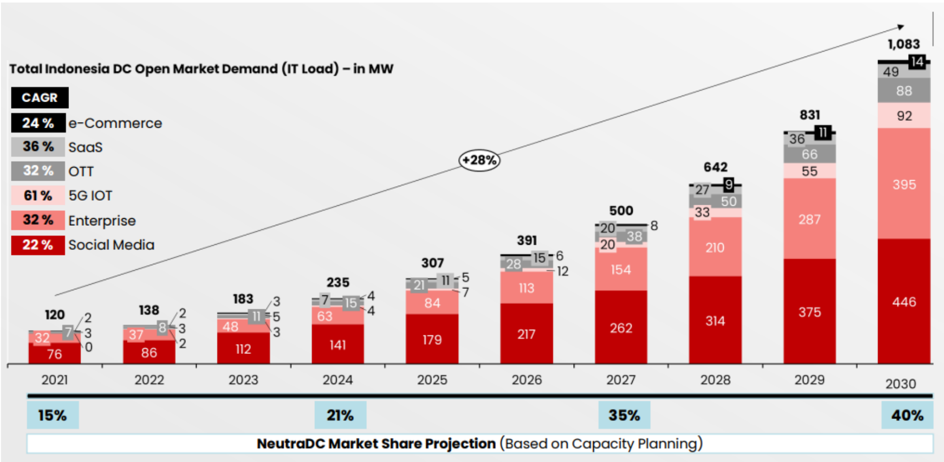
Fig 9. TLKM existing data centres



Source: Company

From the management's perspective, DC business is still in the early stage in Indonesia, and has big potential ahead. As digital has become an aspect in one's daily life, digital adoption will continue in the upcoming periods. Not to mention that enterprises will need DC to support their operations ahead. The biggest SEA player in DC business is Singapore. However, the recent regulation from SG that limits the establishment of DC to only 60MW per annum coupled with stricter regulation, is expected to open new opportunities for Indonesian DC business. Additionally, Government of Indonesia is being supportive and even provides incentives for DC development.

Fig 10. Estimation Indonesian DC market



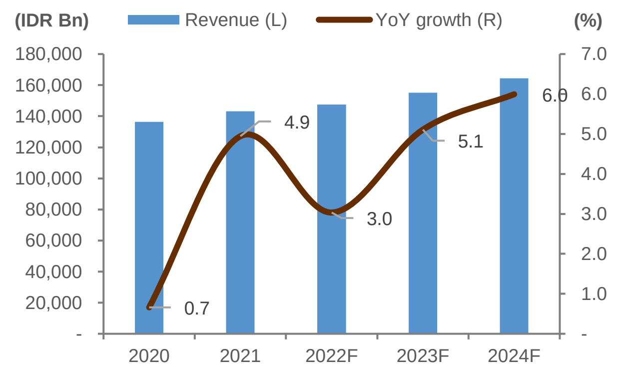
Source: Company

In our view, TLKM's developing more on DC business should be a good opportunity and may enhance its overall growth and performance although will be more on a longer term to materialize. Despite the big growth potential, however risks remain including investment costs, human resources, and competiton. Capex needed for DC investment is not cheap, currently at USD 12-13mn per MW (normal at USD 9-10mn per MW), highly elevated due to current global supply chain issues. High investment costs should mean a longer time for TLKM to reach profitability.

IV. Financial overview

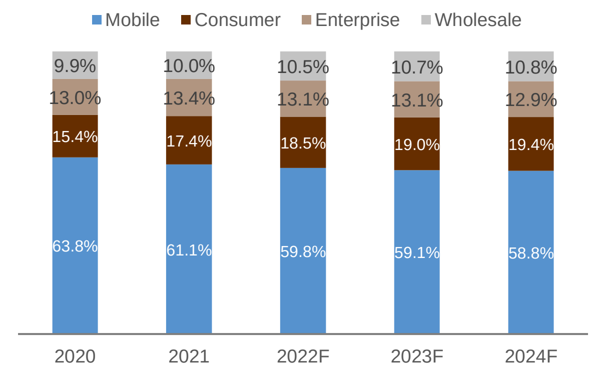
We forecast TLKM revenue to grow at 5.6% CAGR FY 22F-24F. Mobile segment will grow at 4.7% CAGR FY 22F-24F, still the main contributor to its revenue at 59.1% as of FY23F. Legacy business remains in the downtrend despite our forecast of a slower declining pace onwards. Digital business (data and digital services) will contribute 83.5% to the total mobile segment as of FY23F. IndiHome to remain growing, albeit at a slower pace compared to the previous years.

Fig 11. TLKM revenue



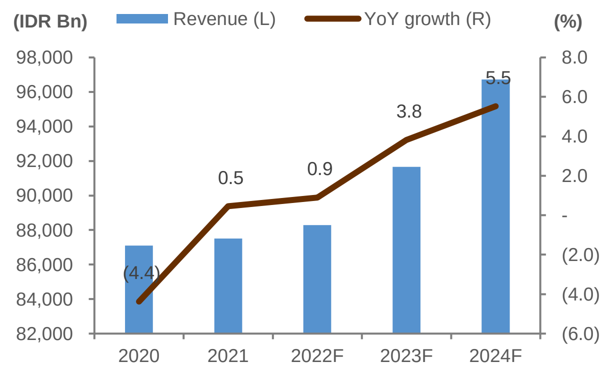
Source: Company, KISI

Fig 12. TLKM revenue breakdown



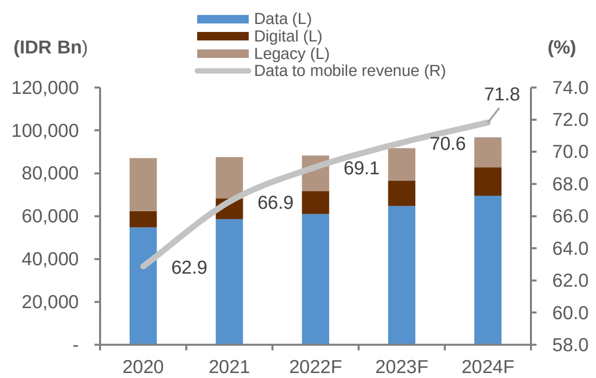
Source: Company, KISI

Fig 13. TSEL revenue



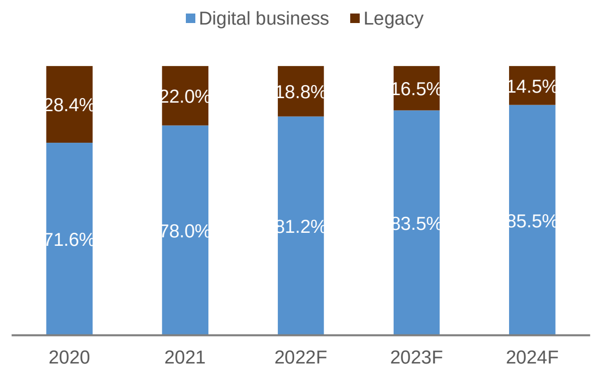
Source: Company, KISI

Fig 14. TSEL revenue breakdown



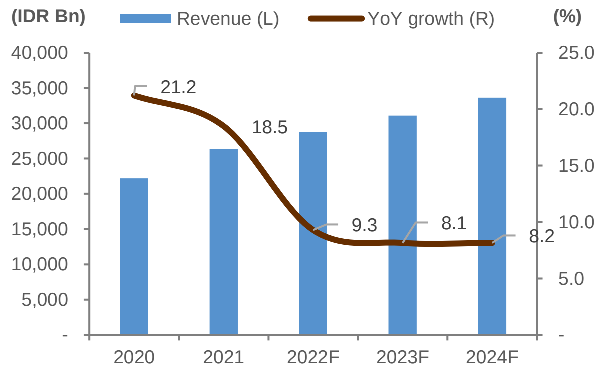
Source: Company, KISI

Fig 15. TSEL digital vs legacy contribution



Source: Company, KISI

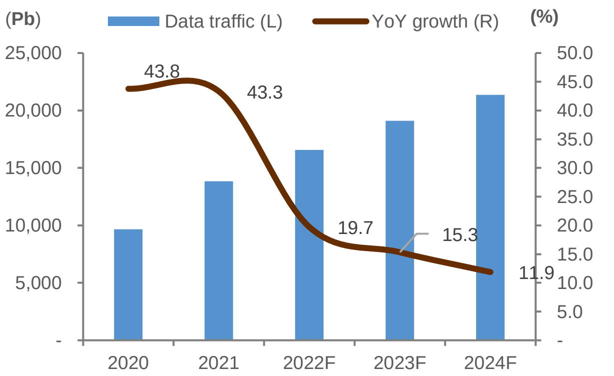
Fig 16. IndiHome revenue



Source: Company, KISI

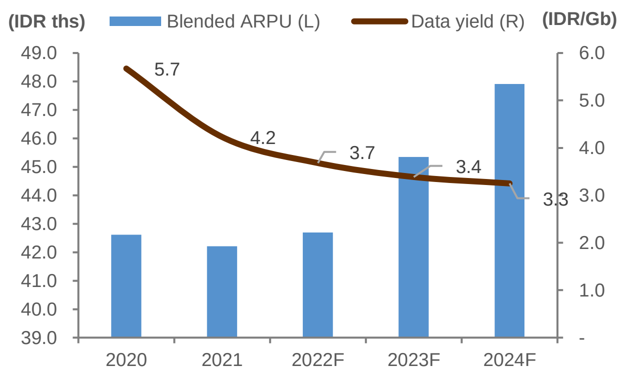
Going forward, we expect data traffic to still grow quite significantly at 13.6% CAGR FY22F-24F, with increasing ARPU. This is as increasing digital adoption will grow data traffic, including data/subscriber in TSEL is still the lowest among ISAT and EXCL. ARPU should increase as TSEL raises prices and focuses to maintain the high-value customers. Data yield will remain declining although at a slower pace. On profitability level, we only expect a slight increase in EBITDA margin as TLKM already has the highest profitability level (EBITDA margin of ~57%) compared to ISAT/EXCL.

Fig 17. TSEL data traffic



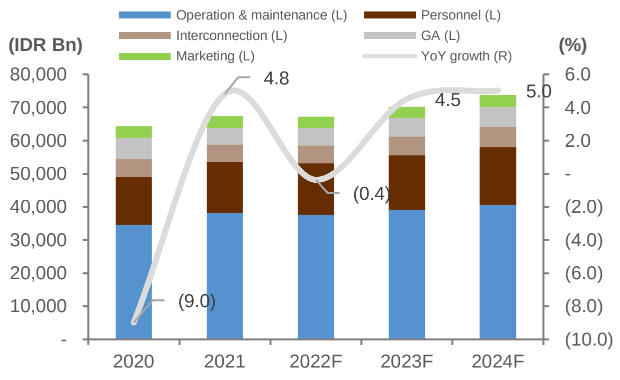
Source: Company, KISI

Fig 18. TSEL ARPU and data yield



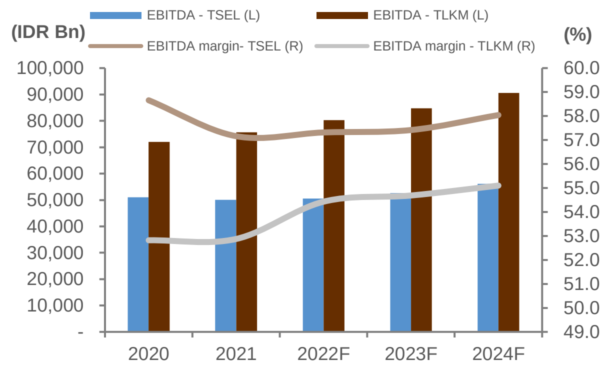
Source: Company, KISI

Fig 19. TSEL expenses



Source: Company, KISI

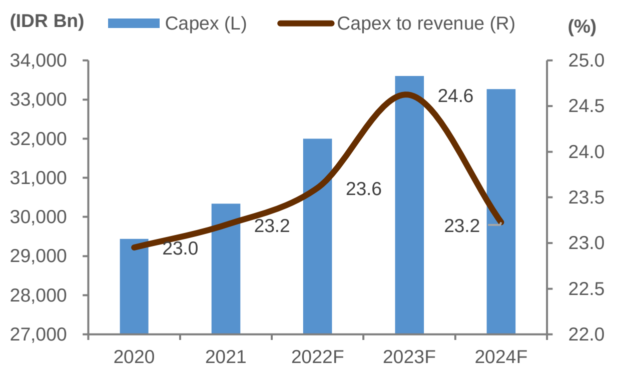
Fig 20. TSEL EBITDA and EBITDA margin



Source: Company, KISI

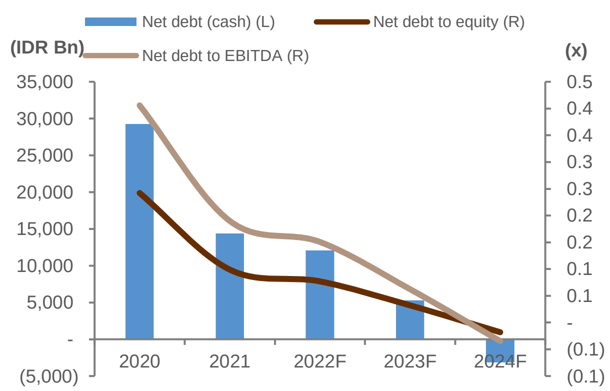
On the balance sheet, TLKM has a healthy balance sheet in which its net debt to equity/EBITDA is expected to be only at 0.03/0.06x as of FY23F. This is already accounting for high capex to revenue at ~23%-24%. TLKM will still need to invest quite a lot capex in order to develop its other subsidiaries aside from TSEL. However, with a strong balance sheet and cash flow generation, we see no issue in financing its capex ahead. Note that management highlights that they may hold dividends (for example from TSEL) at a steady nominal level, in order to allocate some of the profit for future capex, which may lead to lower payout and yield in the upcoming years. We believe a potential lower payout will not be an issue, as it will be allocated into more productive investments.

Fig 21. TLKM capex



Source: Company, KISI

Fig 22. TSEL cash and debt position

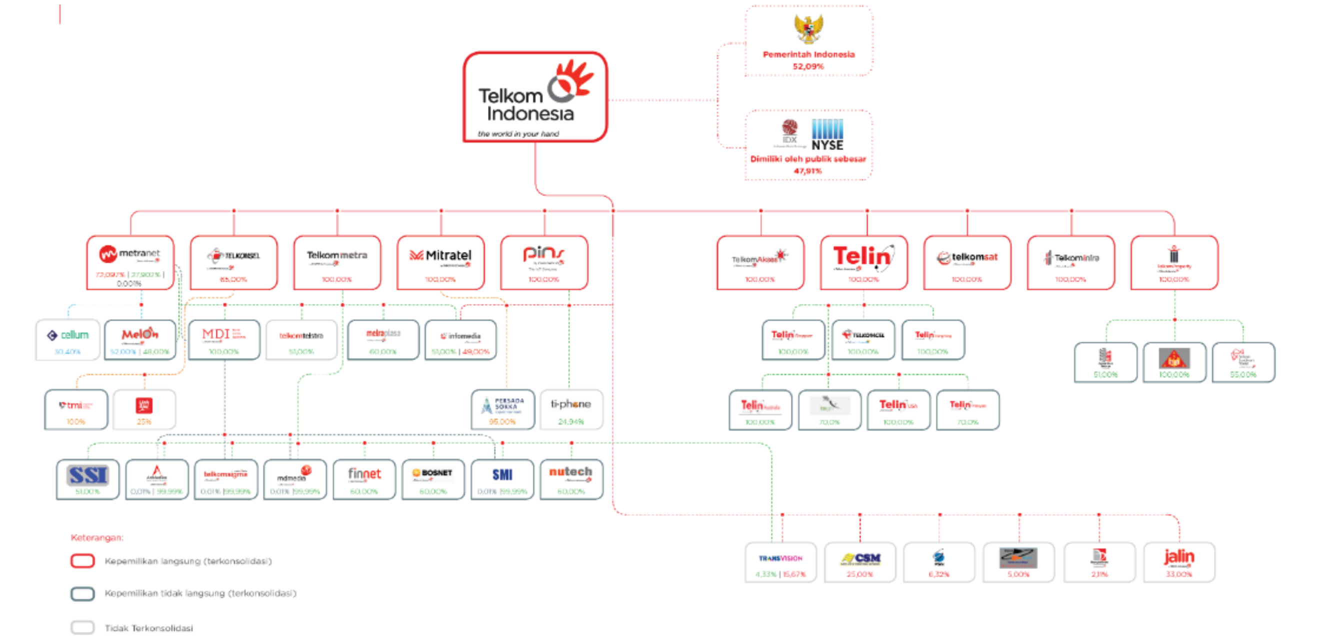


Source: Company, KISI

Company Overview

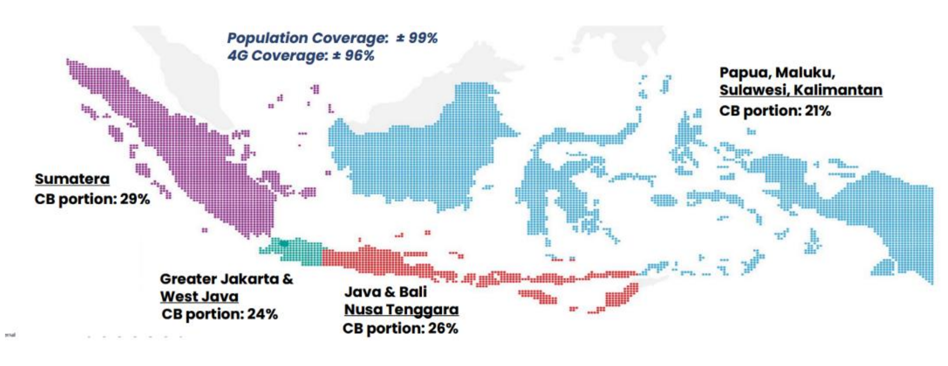
PT Telkom Indonesia (Persero) Tbk. (TLKM), officially established in 1965, is a state-owned enterprise that engages in information and communication technology (ICT) services in addition to operation telecommunication networks. TLKM held its IPO in 1995, with 52.1% ownership owned by the government on Indonesia while the remaining shares go to public. TLKM operates in four main segments, namely mobile, consumer, enterprise and WIB. Mobile segment offers legacy business (voice and SMS), data and value-added services (VAS). Consumer segment offers other telco services to residential consumers including fixed line, pay TV, and internet services in addition to IndiHome. Enterprise offers corporate and institutional customers end-to-end solutions. WIB offers interconnection services, leased lines, satellite, etc. to other telco operators and international clients.

Fig 23. Cumulative Covid-19 vaccination per province (as % of target)



Source: Company

Fig 24. ACES regional presence as of 2021e



Source: Company

Balance sheet (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	20,589	38,311	40,591	47,404	55,830
Accounts & other receivables	11,553	8,705	11,540	11,562	11,701
Inventories	983	779	834	946	942
Others	13,378	13,482	13,373	14,620	15,290
Non-current assets					
Fixed assets	179,489	183,495	188,425	193,004	195,577
Intangible assets	6,846	7,506	7,506	7,506	7,506
Investments	4,237	13,800	13,800	13,800	13,800
Other non-current assets	9,868	11,106	12,379	12,085	13,117
Total assets	**246,943**	**277,184**	**288,448**	**300,928**	**313,763**
Current liabilities					
Accounts & other payables	17,577	17,779	17,646	19,260	20,161
ST debt & bond	19,284	16,372	16,372	16,372	16,372
Obligations under finance lease	5,396	5,961	5,961	5,961	5,961
Others	26,836	29,019	29,002	30,804	32,758
Non-current liabilities					
LT debt & bond	30,561	36,319	36,319	36,319	36,319
Obligations under finance lease	10,221	10,426	10,426	10,426	10,426
Other non-current liabilities	16,179	15,909	15,547	17,320	17,980
Total liabilities	**126,054**	**131,785**	**131,274**	**136,461**	**139,977**
Capital stock	4,953	4,953	4,953	4,953	4,953
Additional paid-in capital	2,711	2,711	2,711	2,711	2,711
Retained earnings	94,489	104,587	113,347	119,398	127,131
Others	374	9,395	9,395	9,395	9,395
Minority interest	18,362	23,753	26,768	28,010	29,597
Total equity	**120,889**	**145,399**	**157,174**	**164,466**	**173,787**

Cash flow (IDR bn)

FY-ending Dec. (IDR bn)	2020A	2021A	2022F	2023F	2024F
C/F from operating	**56,826**	**67,865**	**59,949**	**65,935**	**70,330**
Net profit	20,804	24,760	25,791	26,684	29,080
Depreciation	28,892	31,816	34,073	35,977	37,613
Net incr. in W/C	6,457	5,898	(2,930)	2,033	2,050
Others	673	5,391	3,015	1,242	1,587
C/F from investing	**(36,742)**	**(47,348)**	**(40,639)**	**(38,488)**	**(40,557)**
CAPEX	(51,408)	(35,822)	(39,004)	(40,555)	(40,186)
Others	14,666	(11,526)	(1,635)	2,067	(371)
C/F from financing	**(17,737)**	**(2,795)**	**(17,031)**	**(20,633)**	**(21,347)**
Incr. in equity	-	-	-	-	-
Incr. in debts	101	2,846	-	-	-
Dividends	(15,262)	(16,643)	(14,856)	(20,633)	(21,347)
Others	(2,576)	11,002	(2,175)	-	-
Increase in cash	**2,347**	**17,722**	**2,280**	**6,813**	**8,426**

Income statement (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Net revenues	**136,462**	**143,210**	**147,556**	**155,094**	**164,391**
Expenses	(64,382)	(67,487)	(67,241)	(70,276)	(73,810)
EBITDA	**72,080**	**75,723**	**80,314**	**84,818**	**90,581**
Depreciation expenses	(28,892)	(31,816)	(34,073)	(35,977)	(37,613)
Operating profit	**43,188**	**43,907**	**46,241**	**48,841**	**52,968**
Financial income					
Interest income	799	558	747	834	978
Financial expense					
Interest expense	(4,520)	(4,365)	(4,482)	(4,482)	(4,482)
Other non-operating profit	188	224	-	-	-
Gains (Losses) in associates, subsidiaries and JV	(880)	3,354	-	-	-
Earnings before tax	**38,775**	**43,678**	**42,506**	**45,193**	**49,464**
Income taxes	(9,212)	(9,730)	(8,243)	(9,942)	(10,882)
Net profit	**20,804**	**24,760**	**25,791**	**26,684**	**29,080**
Non-controlling interest	8,759	9,188	8,471	8,567	9,502

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	210.0	249.9	260.4	269.4	293.6
BPS	1,035.0	1,228.0	1,316.4	1,377.5	1,455.5
DPS	154.1	168.0	150.0	208.3	215.5
Growth (%)					
Sales growth	0.7	4.9	3.0	5.1	6.0
EBITDA growth	11.2	5.1	6.1	5.6	6.8
OP growth	3.7	1.7	5.3	5.6	8.4
NP growth	11.5	19.0	4.2	3.5	9.0
Profitability (%)					
EBITDA margin	52.8	52.9	54.4	54.7	55.1
OP margin	31.6	30.7	31.3	31.5	32.2
NP margin	15.2	17.3	17.5	17.2	17.7
ROA	8.9	9.4	9.1	9.1	9.5
ROE	20.6	22.1	20.5	20.0	20.7
Dividend yield	3.5	3.8	3.4	4.7	4.9
Dividend payout ratio	81.8	80.0	60.0	80.0	80.0
Stability					
Net debt (IDR bn)	29,256	14,380	12,100	5,287	(3,139)
Int.-bearing debt/equity (%)	41.2	36.2	33.5	32.0	30.3
Valuation (X)					
PE	21.0	17.6	16.9	16.4	15.0
PB	4.3	3.6	3.4	3.2	3.0
EV/EBITDA	6.9	6.5	6.1	5.7	5.3

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Korea Investment & Sekuritas Indonesia

Indosat (ISAT)

Progressing well on IOH integration

Moving up to the 2nd largest operator

Post the consolidation, ISAT has moved up as the 2nd largest MNO in Indonesia. As of 1H22, ISAT commanded more than 96mn subscribers (estimates of ~30mn additional subscribers from Hutchison 3) with a 26.9% revenue share. ISAT currently has ~145 MHz network, operating about 199k BTS (~62% 4G).

Solid performance in 2Q22 amid the network integration

Despite still being in the middle of network integration, ISAT managed to perform well in 2Q22, adding 1.6mn subscribers QoQ, equivalent to ~0.7% additional market share. This may be on the back of 1) strong brand reputation, and 2) potential downtrading from other MNO as a result of rising data prices. In addition, ISAT also booked top-line growth of 7.2% QoQ on rising data traffic and ARPU.

Network integration progressing well

ISAT is now undergoing network integration post the merger. Management emphasizes that the integration is progressing well and exceeding expectations. As of 1H22, 46% of the initiatives were completed, and all vendors will support the process. Management now eyeing the completion to be faster and the cost savings will be on the upper hand of the initial projection. In addition, management also disclosed that they had successfully concluded a number of tower contracts expiration. Overall, we forecast EBITDA margin expansion to 42% in FY23F (+50bps YoY), as a result of recent price hikes and cost savings brought by the integration process.

Benefitting from a more conducive industry outlook

ISAT stated rising its data packages twice, in early April and July by 5% to 10% each. Management emphasizes further room to price increases in the following quarters. We anticipate that ISAT should be the most positively impacted as it has the lowest profitability among its competitors. We also believe ISAT will perform better in luring subscribers given the current aggressive price increases environment, should downtrading occurs.

Re-initiate coverage with BUY recommendation and TP of IDR 8,300

Our TP on ISAT is derived via 10-year DCF valuation (13.9% WACC; 2% LT terminal growth). It also implies 5.8x FY23F EV/EBITDA. We like ISAT for its capability to undergo network integration post-merger without any impactful disruption in its operations. As a result, more positive outcomes should be seen in the upcoming quarters. Alongside with the healthier industry, we forecast ISAT's EBITDA margin of 42.1%/43% in FY23F/24F.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	27,926	31,388	44,861	48,285	52,169
EBITDA (IDR bn)	11,433	13,886	18,340	20,345	22,537
OP (IDR bn)	1,422	3,682	4,857	5,811	6,999
NP (IDR bn)	(717)	6,751	3,636	824	1,613
Net debt/(cash) (IDR bn)	14,223	12,403	15,571	16,278	17,984
EBITDA margin (%)	40.9	44.2	40.9	42.1	43.2
OP margin (%)	5.1	11.7	10.8	12.0	13.4
ROE (%)	(5.4)	58.2	17.8	2.7	5.0
Dividend yield (%)	11.7	16.6	-	-	-
EPS (IDR)	(131.9)	1,242.4	453.4	102.2	200.0
chg. (%, YoY)	NA	NA	(63.5)	(77.5)	95.7
BPS (IDR)	2,184.5	1,689.5	3,470.3	3,553.7	3,753.7
DPS (IDR)	828.1	1,168.2	-	-	-
PE (x)	NA	5.7	15.5	69.0	35.2
PB (x)	3.2	4.2	2.0	2.0	1.9
EV/EBITDA (x)	7.3	6.3	5.8	5.3	4.9

Company Update

Telcos

19 Sep 2022

12M rating	**BUY (Re-Initiate)**
12M TP	**IDR 8,300**
Upside	**17.7%**

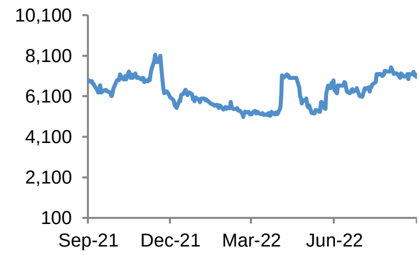
Stock Data

JCI (Sep 19)	7,169
Stock price (Sep 19, IDR)	7,050
Market cap (IDR bn)	56,842
Shares outstanding (mn)	8,063
52-week high/low (IDR)	8,300 / 5,000
6M avg. daily turnover (IDR bn)	46.8
Free float (%)	13.8
Major shareholders (%)	
Ooredoo Hutchison Asia Pte.Ltd (P)	65.6
PT Tiga Telekomunikasi Indonesia	10.8
PT Perusahaan Pengelola Aset (Persero)	9.6

Performance

	1M	6M	12M
Absolute (%)	1.4	42.2	30.7
Relative to JCI (%p)	-4.2	32.2	-15.7

ISAT stock price



Source: Bloomberg

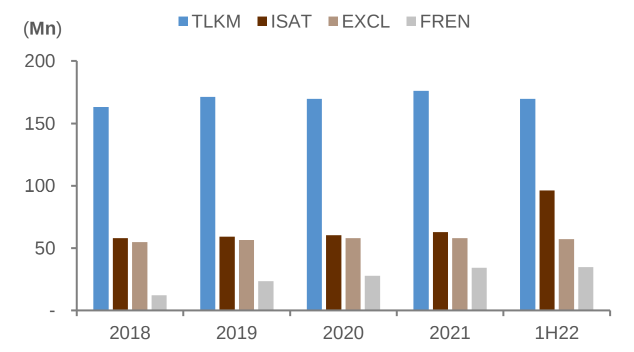
Wilbert Ham

wilbert.h@kisi.co.id

I. Moving up to the 2nd largest operator

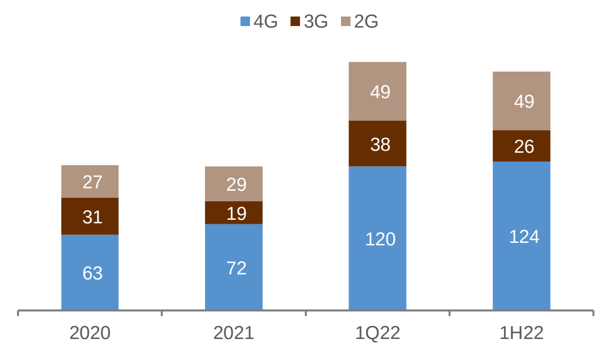
Completing the ISAT – Hutchison 3 consolidation, ISAT has moved up becoming the second largest operator in Indonesia, leaving EXCL and FREN with quite a huge gap. As of 1H22, ISAT owned total subscribers of 96.2mn, seeing an additional of 33.3mn from FY21. Its revenue accounted for IDR 22.5tn, equivalent to 26.9% mobile revenue share. It currently operates ~199k BTS, comprises of 124k 4G, 26k 3G and 49k 2G, and is in the middle of shutting down 3G BTS.

Fig 1. ISAT owns 2nd largest subscriber base



Source: Company, KISI

Fig 2. ISAT numbers of BTS

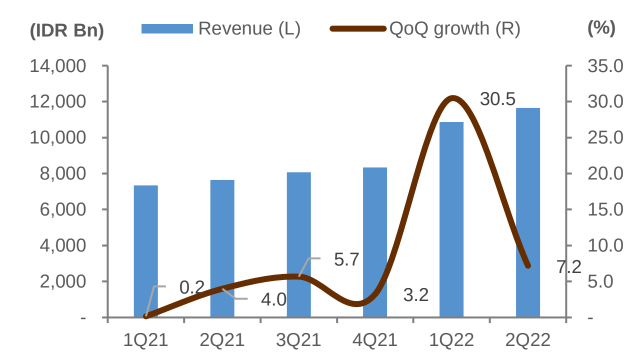


Source: Company, KISI

II. Solid performance in 2Q22 amid the network integration

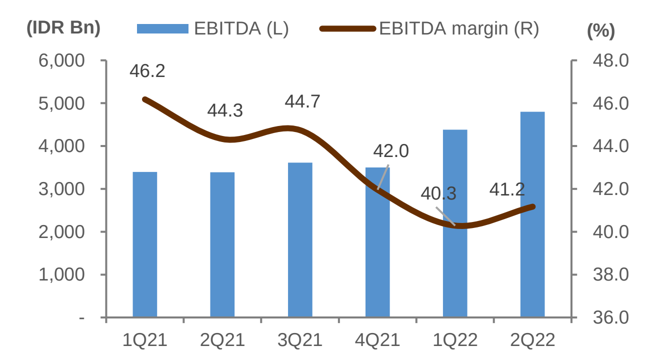
Despite ISAT still undergoing network integration post-merger, no significant operation disruption has been seen yet, in fact it managed to post a 2Q22 solid performance. It still recorded quite strong revenue growth of 7.2% QOQ, with an expansion in EBITDA margin of 41.2% (vs 40.3% in 1Q22) due to lower opex to revenue.

Fig 3. ISAT solid quarterly top-line growth



Source: Company, KISI

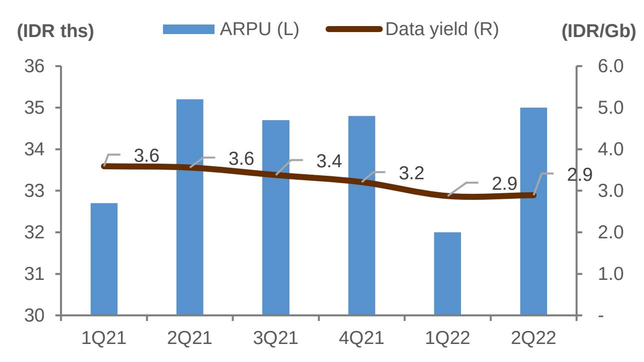
Fig 4. ISAT EBITDA margin expand in 2Q22



Source: Company, KISI

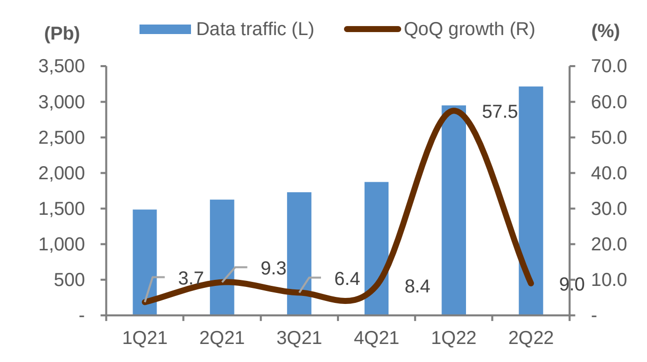
All the 2Q22 key operationals have been positive in our view. No signal of weakness in customer acquisition, as it still managed to capture additional 1.6mn subscribers QoQ. Blended ARPU has increased to IDR 35k (+9.2% QoQ) after the drop in 1Q22. In addition, ISAT booked first positive data yield growth of 0.7% QoQ to IDR 2.89k/Gb. Solid 2Q22 performance is expected on management's strategy to pull-out smooth and no services disruption on network integration progress, strong brand with high customer trust (from both brands), and potential capturing subscriber share from other MNOs due to the recent aggressive price hikes.

Fig 5. Positive trend in ISAT ARPU and data yield



Source: Company, KISI

Fig 6. ISAT data traffic stil grow strongly in 2Q22



Source: Company, KISI

III. Network Integration progressing well

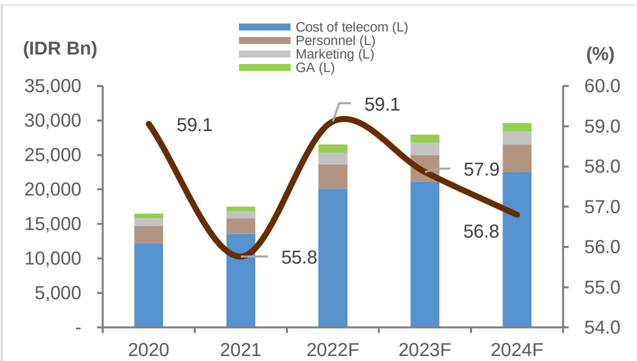
Management reported that 46% of the initiatives have been finished, and all vendors (Huawei, Ericsson, and Nokia) are fully onboard to support the integration process. In addition, management is now being more confident that the integration will be completed sooner than initial expectation, in only 3 - 3.5 years. In term of potential cost savings, management believes they could reach the upper range projection of USD 400mn (previously guided at USD 300 – 400mn). Consequently, we forecast EBITDA margin to expand, achieving 42% in FY23F as cost savings begin to materialize coupled with higher data prices.

Fig 7. ISAT integration has been progressing well

Source: Company

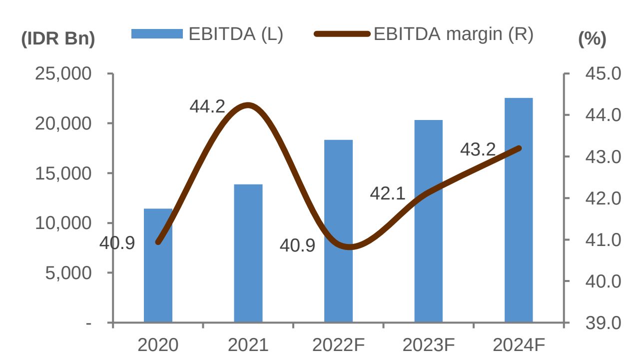
Aside from that, management also noted that they have already finished the renewal of 2,500 towers contract with a favorable offer (at a current market rate of about IDR 12mn/month). We expect a reduction in costs may to be visible as soon as in 3Q22. There would be more towers renewal coming in the next 12 months, which in our opinion, may continue reducing costs and impact positively to ISAT's profitabilty.

Fig 8. Reduction in expenses in the upcoming years



Source: Company, KISI

Fig 9. EBITDA margin to expand

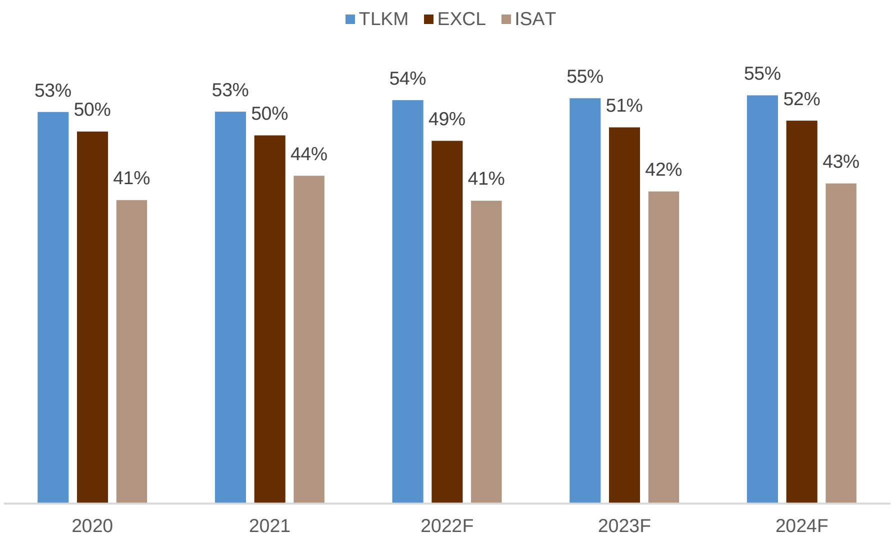


Source: Company, KISI

IV. Benefitting from a more conducive market outlook

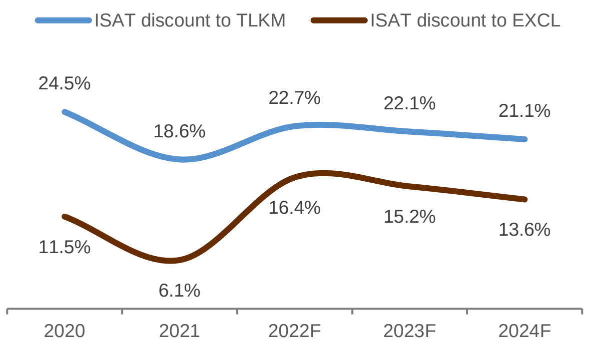
Compared to the past three to four years, when MNOs engaged in price wars with the goal to acquire subscribers. However, the industry now has started to move in the right direction. All MNOs have seen a considerable reduction in data yield and ARPU hence leading to lower profitability. ISAT, compared to TLKM and EXCL, has the lowest profitability level. Its EBITDA margin only accounts for ~40%, much lower than TLKM/EXCL at ~50%. ISAT's data yield also discounted heavily to TLKM by ~24% as of 2021. Consequently, ISAT has faced tough challenges in booking bottom-line profits in recent years.

Fig 10. Lowest EBITDA margin among MNOs



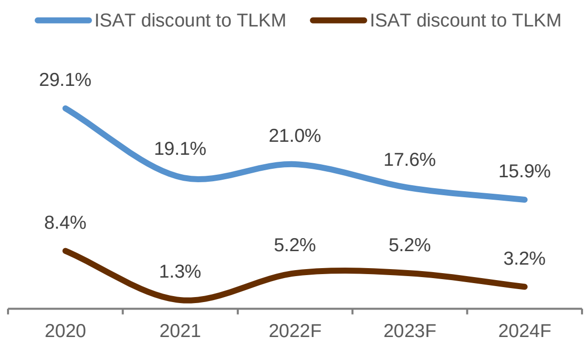
Source: Company, KISI

Fig 11. ARPU discount



Source: Company, KISI

Fig 12. Data yield discount



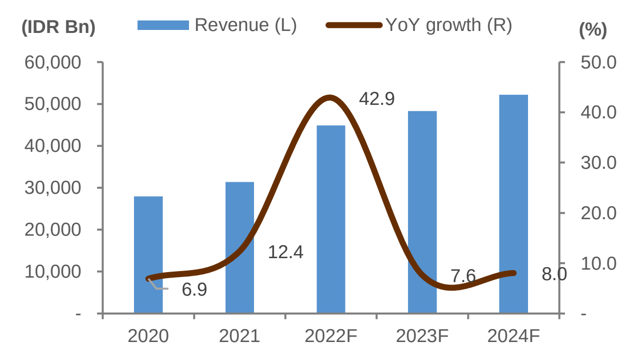
Source: Company, KISI

As the industry has moved into a more rational behavior, all MNOs excluding FREN, have begun to increase their data pricing. ISAT has raised its price twice this year, in early April and July, by 5% - 10% each. Management still see potential further increase in the upcoming periods, although will keep an eye on every factor before continuing to raise prices. We believe the positive data pricing outlook in the industry will benefit ISAT the most due to its low profitability level. In addition, during the aggressive price hike era, we view ISAT could be positively impacted, gaining traction from subscribers who are more price sensitive, if downtrading persists.

V. Financial overview

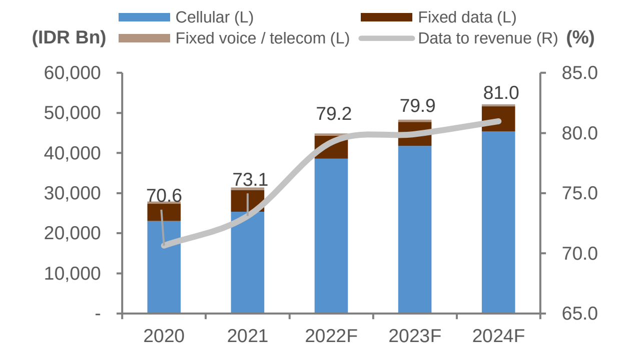
We forecast ISAT to post a 7.8% top-line CAGR for FY22-24F to IDR 52.2tn (vs 1.2% CAGR FY17-21). Data will remain the biggest revenue contributor in our view, contributing about 80% in FY23F. The combination of strong data traffic growth with higher ARPU should support data revenue to grow by 9.0% CAGR FY22-24F. We believe this will also be impacted by the smooth integration process post-merger. We forecast 12.4%/7% CAGR FY22-24F for data traffic and ARPU.

Fig 13. ISAT revenue



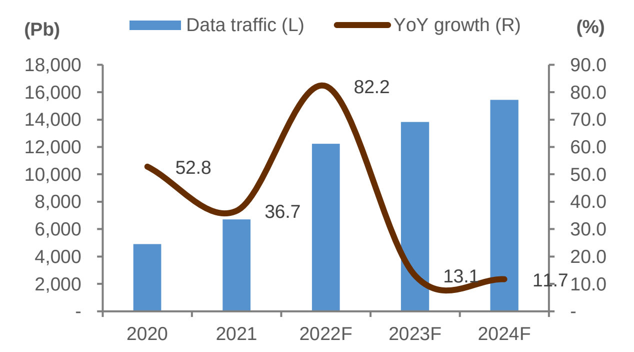
Source: Company, KISI

Fig 14. ISAT revenue breakdown



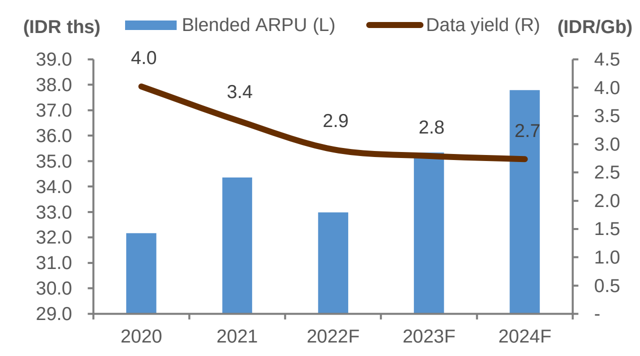
Source: Company, KISI

Fig 15. ISAT data traffic



Source: Company, KISI

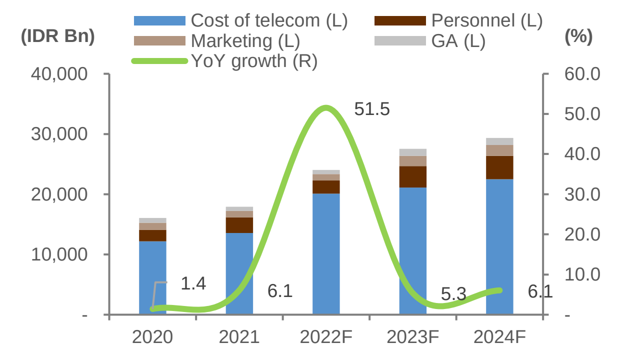
Fig 16. ISAT blended ARPU and data yield



Source: Company, KISI

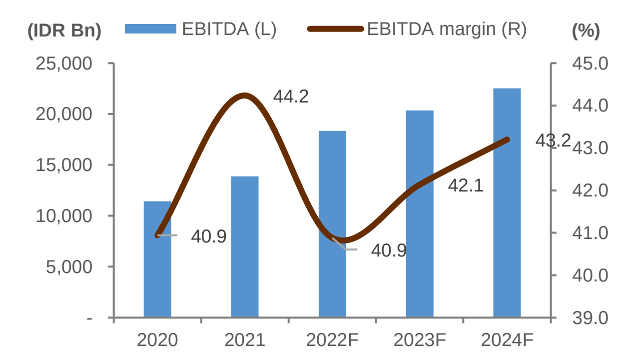
Along with top-line growth, cost savings whether coming from the network integration or tower renewal may translate to ISAT's better cost control ahead. Cost reduction is expected to start showing results in 3Q22 on the 2500 towers contract renewal that has been finished. Note that the new renewal price is at current market price of around IDR 12mn per month (compared to the previous of around IDR 20mn per month). ISAT will also undergo more towers contract renewals in the next 1 year. Consequently, we forecast its EBITDA margin to expand to 42.1%/43.2% in FY23F/24F.

Fig 17. ISAT expenses breakdown



Source: Company, KISI

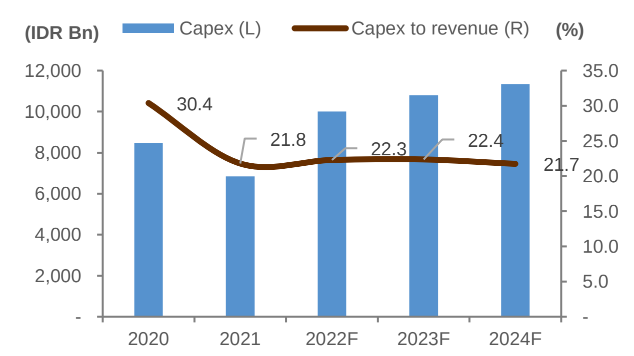
Fig 18. EBITDA margin to expand



Source: Company, KISI

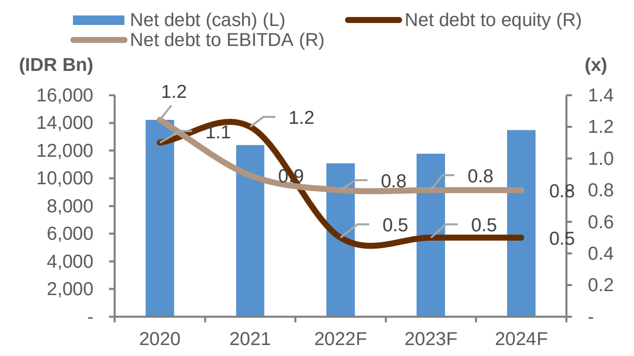
On the capex side, we believe ISAT remains to allocate around 22% of its revenue in the upcoming years. Cash and debt position remains healthy coupled with solid performances ahead , we see no significant issues for ISAT to finance its capex ahead.

Fig 19. ISAT capex



Source: Company, KISI

Fig 20. ISAT cash and debt position



Source: Company, KISI

Company Overview

PT Indosat Tbk (ISAT) was established in 1967 as one of Indonesia's leading telecommunications, informatics and/or convergence technology service provider. As of 2015, the company being the member of Ooredoo Group has been rebranded as Indosat Ooredoo. In 2021, Ooredoo Group and CK Hutchison announced the merger, creating Indosat Ooredoo Hutchison (IOH). Post the consolidation, ISAT rises to the position of the second largest telco operator in Indonesia, commanding 96.2mn total subscribers as of 1H22.

Fig 21. ISAT shareholder structure

Source: Company

Fig 22. ISAT network coverage

Source: nperf.com

Balance sheet (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	1,787	4,087	4,647	3,940	2,234
Accounts & other receivables	2,589	2,060	2,944	3,169	3,424
Inventories	40	18	135	145	114
Others	5,179	5,334	7,307	7,864	8,620
Non-current assets					
Fixed assets	46,522	45,515	67,244	70,689	73,602
Goodwill	1,324	1,324	15,046	15,046	15,046
Investments	531	593	848	914	986
Other non-current assets	4,806	4,465	5,950	6,405	6,920
Total assets	**62,779**	**63,397**	**104,120**	**108,172**	**110,945**
Current liabilities					
Accounts & other payables	9,953	11,041	8,972	9,657	10,434
ST debt & bond	2,423	7,667	7,667	7,667	7,667
Obligations under finance lease	2,230	2,682	7,468	7,468	7,468
Others	8,051	7,268	10,094	10,864	11,852
Non-current liabilities					
LT debt & bond	13,587	8,824	12,551	12,551	12,551
Obligations under finance lease	9,580	14,292	24,606	24,606	24,606
Other non-current liabilities	4,041	1,320	2,243	3,810	2,973
Total liabilities	**49,865**	**53,094**	**73,600**	**76,623**	**77,551**
Capital stock	543	543	806	806	806
Additional paid-in capital	1,547	1,547	17,714	17,714	17,714
Retained earnings	9,427	6,703	8,921	9,745	11,358
Others	354	387	387	387	387
Minority interest	1,043	1,122	2,692	2,897	3,130
Total equity	**12,913**	**10,303**	**30,520**	**31,550**	**33,395**

Cash flow (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating	**11,497**	**17,735**	**16,471**	**16,227**	**18,169**
Net profit	(717)	6,751	3,636	824	1,613
Depreciation	10,011	10,204	13,482	14,535	15,538
Net incr. in W/C	2,143	701	(2,217)	663	785
Others	59	79	1,569	205	233
C/F from investing	**(13,185)**	**(11,638)**	**(49,750)**	**(16,934)**	**(19,875)**
CAPEX	(13,780)	(9,197)	(35,211)	(17,981)	(18,451)
Others	596	(2,441)	(14,539)	1,047	(1,425)
C/F from financing	**(2,424)**	**(3,796)**	**33,838**	**-**	**-**
Incr. in equity	-	-	16,430	-	-
Incr. in debts	(2,288)	5,645	18,826	-	-
Dividends	-	(9,500)	(1,999)	-	-
Others	(136)	59	581	-	-
Increase in cash	**(4,112)**	**2,300**	**560**	**(707)**	**(1,706)**

Income statement (IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Net revenues	**27,926**	**31,388**	**44,861**	**48,285**	**52,169**
Expenses	(16,493)	(17,503)	(26,521)	(27,939)	(29,632)
EBITDA	**11,433**	**13,886**	**18,340**	**20,345**	**22,537**
Depreciation expenses	(10,011)	(10,204)	(13,482)	(14,535)	(15,538)
Operating profit	**1,422**	**3,682**	**4,857**	**5,811**	**6,999**
Financial income					
Interest income	191	152	226	222	160
Financial expense					
Interest expense	(3,045)	(3,002)	(4,413)	(5,195)	(5,216)
Other non-operating profit	833	6,675	3,721	317	317
Gains (Losses) in associates, subsidiaries and JV	-	-	-	-	-
Earnings before tax	**(599)**	**7,507**	**4,391**	**1,155**	**2,259**
Income taxes	(31)	(647)	(439)	(254)	(497)
Net profit	**(717)**	**6,751**	**3,636**	**824**	**1,612**
Non-controlling interest	87	109	316	77	150

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	(131.9)	1,242.4	453.4	102.2	200.0
BPS	2,184.5	1,689.5	3,470.3	3,553.7	3,753.7
DPS	828.1	1,168.2	-	-	-
Growth (%)					
Sales growth	6.9	12.4	42.9	7.6	8.0
EBITDA growth	16.0	21.4	32.1	10.9	10.8
OP growth	396.7	158.9	31.9	19.6	20.4
NP growth	NA	NA	(46.1)	(77.3)	95.7
Profitability (%)					
EBITDA margin	40.9	44.2	40.9	42.1	43.2
OP margin	5.1	11.7	10.8	12.0	13.4
NP margin	(2.6)	21.5	8.1	1.7	3.1
ROA	(1.1)	10.7	4.3	0.8	1.5
ROE	(5.4)	58.2	16.0	2.7	5.0
Dividend yield	11.7	16.6	-	-	-
Dividend payout ratio	-	103.7	-	-	-
Stability					
Net debt (IDR bn)	14,223	12,403	15,571	16,278	17,984
Int.-bearing debt/equity (%)	134.9	179.6	72.7	70.6	66.8
Valuation (X)					
PE	NA	5.7	15.5	69.0	35.2
PB	3.2	4.2	2.0	2.0	1.9
EV/EBITDA	7.3	6.3	5.8	5.3	4.9

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Company Update

Telcos

19 Sep 2022

XL Axiata (EXCL)

Focuses on convergence plan

Fastest growing operator in 2Q22

In 2Q22, EXCL emerged as the top performer in the industry, booking top-line growth of 8.8% QoQ, outperforming TLKM/ISAT with 4.5%/7.2% QoQ growth. We believe a combination of strong convergence penetration, improved network quality along with higher ARPU from recent ASP hikes could all be contributing factors to its robust performance. 2Q22 EBITDA margin posted at 48.6% (+150bps QoQ), and management anticipates its target of ~50% EBITDA margin to be met, thanks to EXCL continuing to focus on operational efficiency.

Focus on becoming the leading converged operator

EXCL may have the edge as one of the first-movers in the convergence market, through XL Satu and XL Home Entertainment. In 2Q22, EXCL managed to significantly increase its convergence penetration to 28% of FTTH base, vs 19% in 1Q22. It will soon unlock the potential synergy from Linknet acquisition, planning to launch a new collaboration product between EXCL and First Media on Oct-22, which should help strengthen EXCL's convergence position.

Providing the best customer experience

EXCL has been continuously working on network improvement, aiming to provide the best customer experience to its subscribers. We think this approach is appropriate since most MNOs agree that subscribers now place a higher value on experience than price. In addition, EXCL also has been making good progress in migrating its 3G to 4G networks. From our perspective, its efforts to enhance network quality have been fruitful, as Opensignal announced that EXCL, for the first time, has become the winner in the download speed and video experience categories. In all, improving network quality may lead to stickier subscribers.

Operational excellence to promote better margins

In addition to enhancing its top-line growth, EXCL has also focused on reducing costs, which may result in EBITDA margin expansion ahead. EXCL's marketing-to-sales ratio accounted for ~9% in 2Q22, much higher than TLKM/ISAT's. We expect EXCL to lower its marketing expenses further on healthier industry conditions.

Re-initiate coverage with BUY and TP of IDR 3,900

We have a BUY recommendation on EXCL with TP of IDR 3,900, implying 5.3x FY23F EV/EBITDA (via 10-year DCF, WACC: 12.1%; LT terminal growth of 2%). We expect EXCL to continue its solid performances on stronger convergence penetration, collaboration with First Media, and more positive results from its network quality improvement. Attractive valuation with robust performances.

	2020A	2021A	2022F	2023F	2024F
Sales (IDR bn)	26,009	26,754	28,193	30,178	32,620
EBITDA (IDR bn)	13,060	13,287	13,800	15,318	16,847
OP (IDR bn)	605	3,331	3,347	3,900	4,430
NP (IDR bn)	372	1,288	1,251	1,456	1,856
Net debt/(cash) (IDR bn)	6,383	7,608	11,673	11,790	12,202
EBITDA margin (%)	50.2	49.7	48.9	50.8	51.6
OP margin (%)	2.3	12.4	11.9	12.9	13.6
ROE (%)	1.9	6.6	6.1	6.8	8.3
Dividend yield (%)	1.3	2.1	1.9	2.2	2.8
EPS (IDR)	34.8	120.8	117.3	135.8	173.1
chg. (%, YoY)	(76.7)	450.3	0.5	16.5	13.6
BPS (IDR)	1,794.3	1,883.7	1,948.1	2,026.9	2,145.7
DPS (IDR)	31.6	51.5	46.7	54.3	69.2
PE (x)	71.8	20.7	21.3	18.4	14.4
PB (x)	1.4	1.3	1.3	1.2	1.2
EV/EBITDA (x)	4.4	4.5	4.7	4.3	3.9

12M rating	**BUY (Re-Initiate)**
12M TP	**IDR 3,900**
Upside	**56.0%**

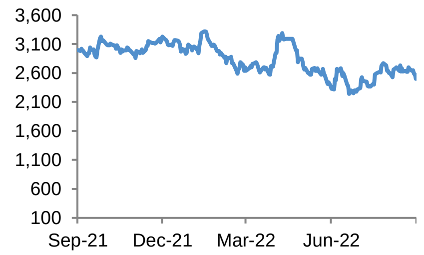
Stock Data

JCI (Sep 19)	7,169
Stock price (Sep 19, IDR)	2,500
Market cap (IDR bn)	26,812
Shares outstanding (mn)	10,725
52-week high/low (IDR)	3,380 / 2,210
6M avg. daily turnover (IDR bn)	67.1
Free float (%)	38.1
Major shareholders (%)	
Axiata Investments (Indonesia) Sdn.Bhd.	61.2

Performance

	1M	6M	12M
Absolute (%)	-5.5	-0.6	-12.5
Relative to JCI (%p)	-5.8	-9.7	-28.3

EXC stock price



Source: Bloomberg

Wilbert Ham

wilbert.h@kisi.co.id

I. Focus on becoming the leading converged operator

EXCL remains its focus to be the leading converged operator in Indonesia, through XL Satu and XL Home Entertainment. We see this as a strategic effort noting that FMC may be one promising trend in the industry. With its convergence package, EXCL offers its customers unlimited home WiFi internet with speeds up to 1 Gbps along with mobile data allotment that may be divided into numerous accounts. 2 additional prepaid numbers and a complimentary 12-month membership to Vidio Platinum are included in all bundles from EXCL. Customers will also be more comfortable as everything will be on a single bill, easily managed on myXL app. Potential growth on FMC plan as customers demand simplicity nowadays.

Fig 1. EXCL focus on FMC plan

Source: Company

Fig 2. New product collaboration with First Media

Source: Company

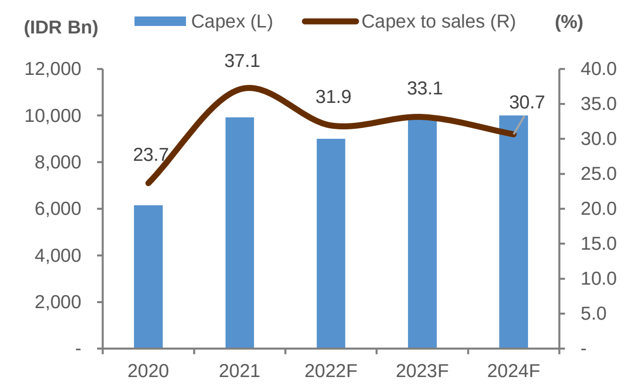
EXCL continues showing strong convergence penetration. It recorded a considerable growth to 28% of its FTTH base in 2Q22, from previously 19%/11% in 1Q22/FY21. We expect EXCL's subscribers to be stickier through this convergence plan, leading to higher blended ARPU due to its prepaid nature. In the future, EXCL could strengthen its position in this space by leveraging First Media, the FTTH solution from Linknet. EXCL intends to introduce a new collaboration product with First Media on Oct-22. With more than 3mn home pass and 800k subscribers, First Media have been the second largest FTTH player in Indonesia. We think EXCL could enhance its mobile and data business ahead by utilizing both the infrastructure and customer base from First Media.

II. Providing the best customer experience

EXCL has allocated a sizable capex in recent years, aiming to improve its network quality in order to bring out the best experience for its subscribers. Since the last 3 years, EXCL invested an average capex of IDR 9.6tn per annum, which makes out about 30% – 40% of its annual revenue. EXCL has re-allocated IDR 9tn capex this year, which may indicate its commitment to keep on preserving its network quality. We anticipate this massive capex allocation to continue, as MNOs may prepare for spectrum auction next year.

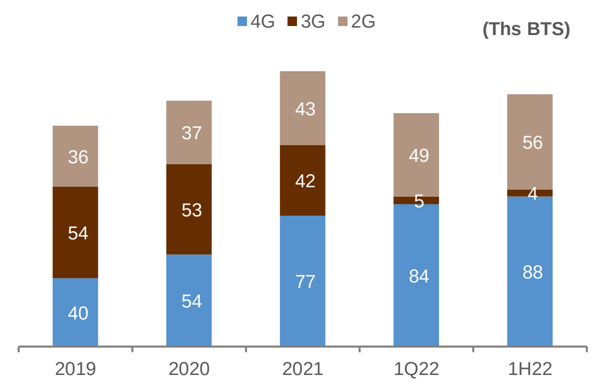
EXCL has made good progress in shutting down 3G and helping to convert its subscribers to 4G network. This may result in a better consumer experience as 4G offers better and quicker internet access. On the other hand, it may also benefit EXCL as it can now optimize its spectrum for 4G networks. As of 1H22, EXCL left its 3G BTS at 4,221 (from 41,657 in FY21) and grew its 4G BTS to 88,447. This marked 92% completion of its 3G shutdown plan.

Fig 3. EXCL capex spending



Source: Company, KISI

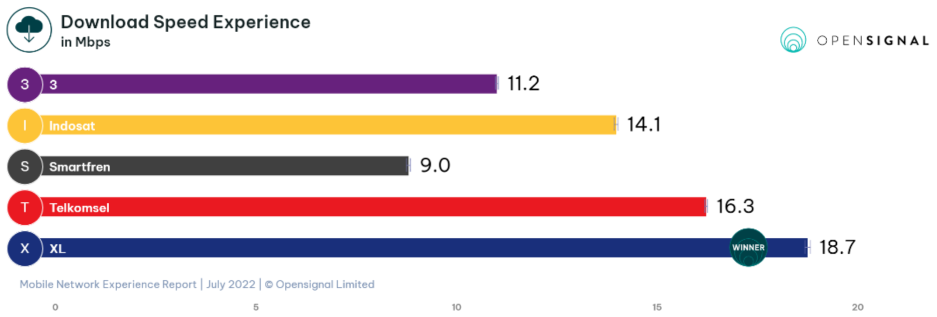
Fig 4. EXCL good progress on 3G shutdowns



Source: Company, KISI

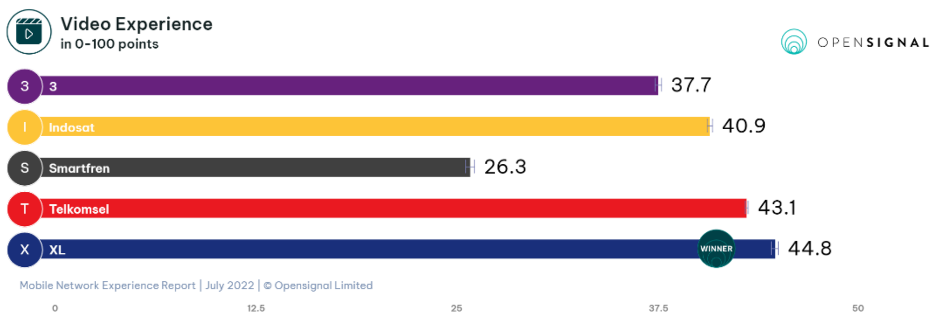
Overall, EXCL's attempts to improve its network quality seem to be quite effective. According to Opensignal Jul-22, EXCL managed to win the video experience award for the first time, indicating EXCL's subscribers received the best available quality of experience when streaming videos. This also ended TSEL's dominance in this category, being the previous six times winner in a row since Opensignal introduce this metric back in Jul-19. In addition to that, EXCL surpasses the other operators in terms of the fastest average download speeds at 18.7 Mbps.

Fig 5. EXCL rank 1st in download speed experience



Source: Opensignal

Fig 6. EXCL win the video experience category



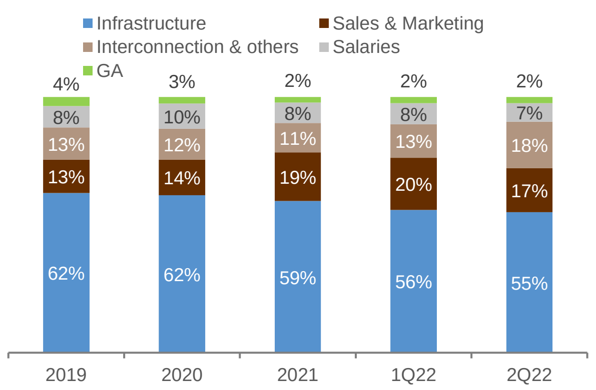
Source: Opensignal

III. Operational excellence to promote better margins

Aside from accelerating its top-line growth, EXCL has also adopted plan to reduce costs. This has translated into slower operating expenses growh of 5.7% QoQ in 2Q22, consequently its EBITDA managed to expand by 12% QoQ. From its 2Q22 expenses breakdown, we are interested in its marketing expenses, which have gone down by 10% QoQ, equivalent to 8.9% of revenue (vs 10.8% of revenue in 1Q22). We believe this is a positive improvement, considering EXCL spends much higher marketing expenses compared to its peers. TLKM/ISAT typically spends about mid-to-low single digit for its marketing campaign, while EXCL is more on the high-single-digit level.

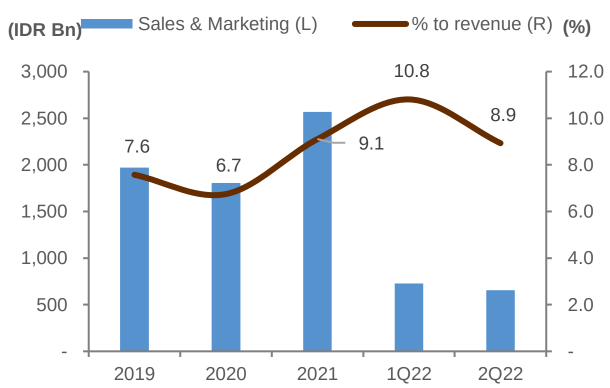
We believe EXCL should be able to reduce its marketing expenses as a reaction to more conducive and healthier conduct in the industry. While on the interconnection and direct costs, a significant QoQ jump is due to the device bundling cost. Management highlighted that this cost arouse from the significant 3G shutdowns, hence EXCL should help its subscribers to migrate to 4G devices. We expect this cost to normalize in the upcoming periods.

Fig 7. EXCL expenses breakdown



Source: Company, KISI

Fig 8. EXCL marketing expense to revenue ratio

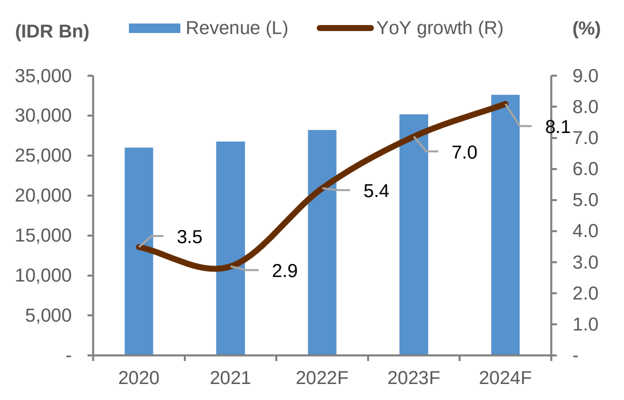


Source: Company, KISI

IV. Financial overview

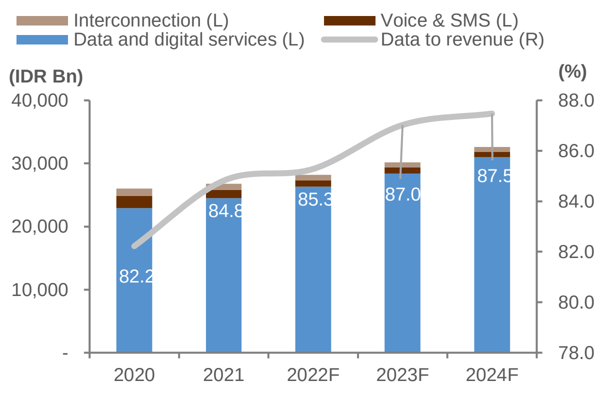
We forecast EXCL positing a 7.6% top-line CAGR for FY22-24F to IDR 32.6tn (vs 4% CAGR FY17-21). Data will remain the biggest revenue contributor in our view, contributing about 87% in FY23F. The combination of strong data traffic growth with higher ARPU should support data revenue to grow by 8.9% CAGR FY22-24F. This is on the back of 13.5%/5% CAGR FY22-24F for data traffic and ARPU. While on data yield, we expect it to remain in the downtrend trajectory despite the decline will be much slower compared to the recent years'.

Fig 9. EXCL revenue



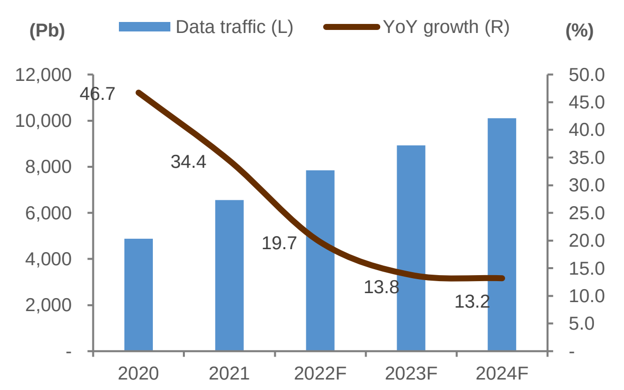
Source: Company, KISI

Fig 10. EXCL revenue breakdown



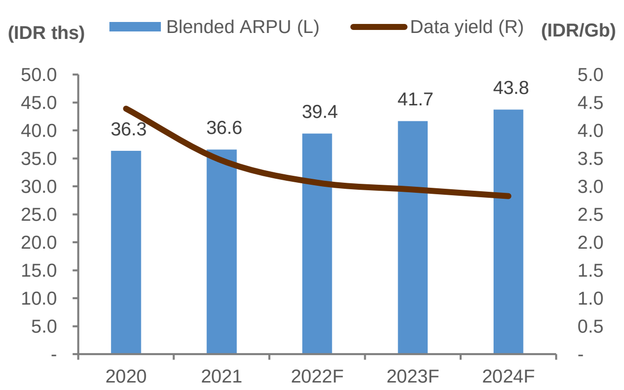
Source: Company, KISI

Fig 11. EXCL data traffic



Source: Company, KISI

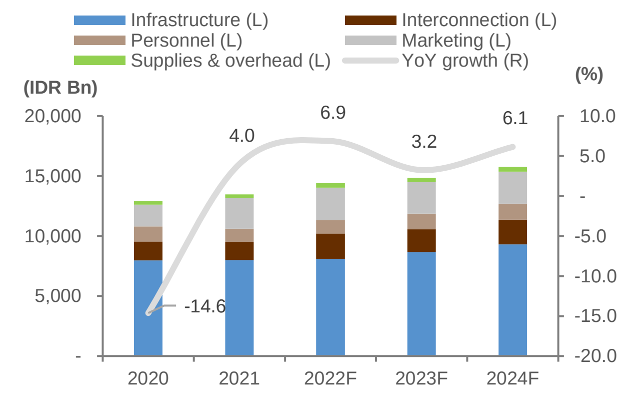
Fig 12. EXCL ARPU and data yield



Source: Company, KISI

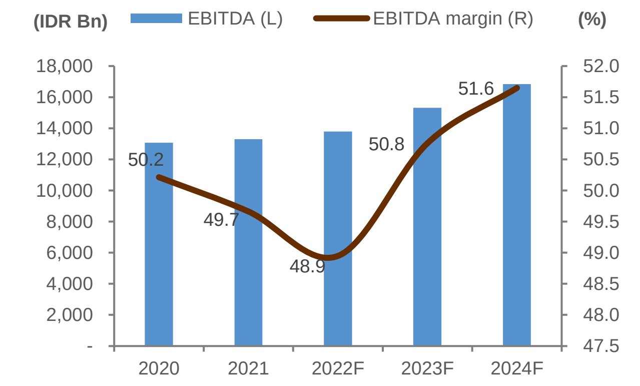
On the profitability level, we forecast margin expansion on the back of continuing operational excellence that may result in cost savings for EXCL. We are seeing EBITDA/EBIT/NP margin reach 50.8%/12.9%/4.8% respectively. We note that any increases in ASP that lead to higher ARPU will quite significantly impact EXCL performance, considering its thin NPM.

Fig 13. EXCL expenses breakdown



Source: Company, KISI

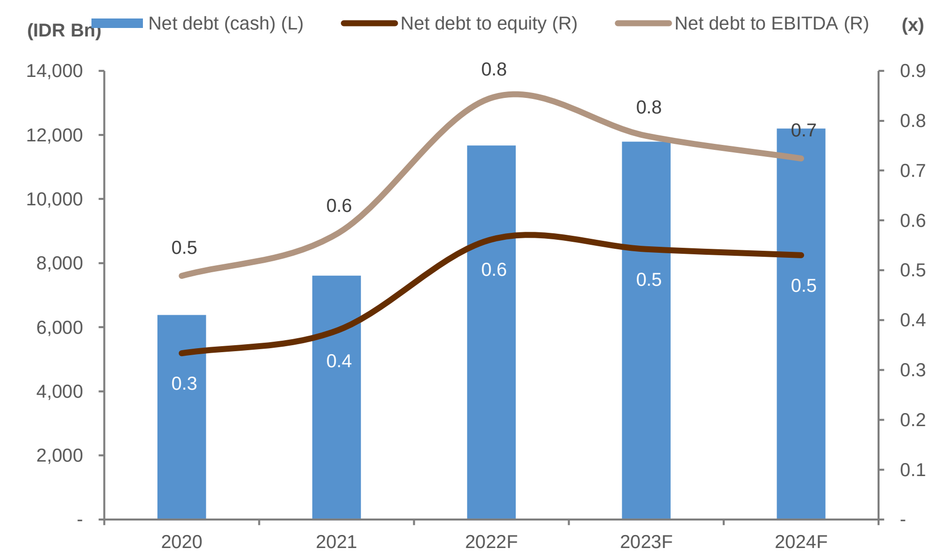
Fig 14. EXCL EBITDA



Source: Company, KISI

On the balance sheet side, EXCL remains healthy post Linknet 20% ownership acquisition. However, management highlighted its forward plan to deleverage, which we see as a strategy to maintain its credit rating. EXCL has finished raising financing through bond and Sukuk amounting to a total IDR 3tn back in Aug-22, which the proceeds are intended for capex, building up capacity and network improvement. Furthermore, EXCL intends to do rights issues up to 2.75bn shares. Assuming the rights price is at IDR 2,600 per share, EXCL would be able to receive about IDR 7tn. If this happens, we believe the proceeds would strengthen EXCL's capital structure, whether later it will be used for capex allocation or deleveraging. Note that EXCL will see around IDR 5.6tn debts mature in 2023.

Fig 15. EXCL cash and debt position

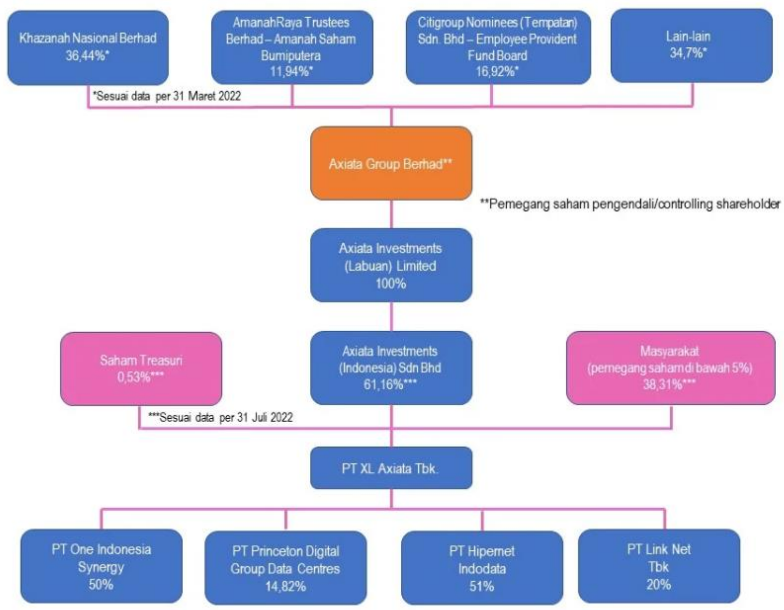


Source: Company, KISI

Company Overview

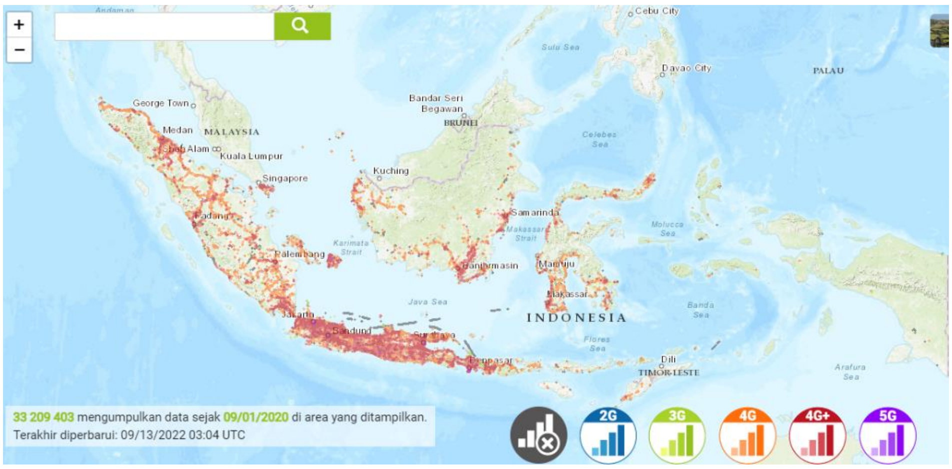
PT XL Axiata Tbk. (EXCL) was first established in 1989 under the name of PT Grahametropolitan Lestari, engaged in trade and general services. In 1996, the company received the license to operate telecommunication services. It was then listed as a public company in 2005. Its parent, Axiata Investments (Indonesia) Sdn. Bhd. owned 61.16% of the company, followed by treasury shares (0.53%) and public (38.31%). EXCL currently ranks third place out of four MNOs in Indonesia, with 57.2mn total subscribers as of 1H22. EXCL provides varieties of telco services to both retail and enterprise customers, including data, voice, SMS, VAS, and others.

Fig 16. EXCL shareholder structure



Source: Company

Fig 17. EXCL network coverage



Source: nperf.com

Balance sheet

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Current assets					
Cash & cash equivalent	2,966	2,664	1,559	1,442	1,030
Accounts & other receivables	560	610	703	697	770
Inventories	143	156	135	162	174
Others	3,902	4,302	4,680	4,797	5,282
Non-current assets					
Fixed assets	47,162	51,912	55,472	59,066	61,911
Goodwill	6,681	6,681	6,916	6,916	6,916
Intangible assets	5,716	5,713	5,988	5,988	5,988
Other non-current assets	614	714	2,819	1,512	1,922
Total assets	**67,745**	**72,753**	**78,270**	**80,578**	**83,992**
Current liabilities					
Accounts & other payables	7,417	10,705	9,504	10,285	11,722
ST debt & bond	1,576	1,745	3,804	3,804	3,804
Obligations under finance lease	4,667	4,531	4,897	4,897	4,897
Others	5,198	3,973	5,382	5,761	6,227
Non-current liabilities					
LT debt & bond	7,773	8,527	9,428	9,428	9,428
Obligations under finance lease	19,613	20,845	21,734	21,734	21,734
Other non-current liabilities	2,365	2,338	2,738	2,931	3,168
Total liabilities	**48,607**	**52,665**	**57,487**	**58,840**	**60,980**
Controlling interest					
Capital stock	1,071	1,072	1,072	1,072	1,072
Additional paid-in capital	12,232	12,216	12,216	12,216	12,216
Retained earnings	5,969	6,934	7,628	8,584	9,858
Treasury shares	(134)	(134)	(134)	(134)	(134)
Total equity	**19,137**	**20,089**	**20,782**	**21,738**	**23,012**

Cash flow

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
C/F from operating	**12,544**	**12,843**	**11,465**	**13,895**	**15,607**
Net profit	372	1,288	1,251	1,456	1,856
Depreciation	12,455	9,956	10,453	11,418	12,418
Net incr. in W/C	(282)	1,599	(239)	1,021	1,333
Others	-	-	-	-	-
C/F from investing	**(17,524)**	**(14,829)**	**(16,227)**	**(13,512)**	**(15,436)**
CAPEX	(17,535)	(14,706)	(14,012)	(15,012)	(15,263)
Others	11	(123)	(2,215)	1,500	(173)
C/F from financing	**6,342**	**1,684**	**3,657**	**(501)**	**(583)**
Incr. in equity	32	(14)	-	-	-
Incr. in debts	6,699	2,021	4,214	-	-
Dividends	(213)	(338)	(552)	(501)	(583)
Others	(175)	16	(6)	-	-
Increase in cash	**1,362**	**(301)**	**(1,106)**	**(117)**	**(412)**

Income statement

(IDR bn)

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
Net revenues	**26,009**	**26,754**	**28,193**	**30,178**	**32,620**
Expenses	(12,949)	(13,467)	(14,393)	(14,860)	(15,772)
EBITDA	**13,060**	**13,287**	**13,800**	**15,318**	**16,847**
Depreciation expenses	(12,455)	(9,956)	(10,453)	(11,418)	(12,418)
Operating profit	**605**	**3,331**	**3,347**	**3,900**	**4,430**
Financial income					
Interest income	183	88	66	47	39
Financial expense					
Interest expense	(2,668)	(2,378)	(2,395)	(2,525)	(2,525)
Other non-operating profit	2,027	659	455	445	437
Gains (Losses) in associates, subsidiaries and JV	(1)	9	-	-	-
Earnings before tax	**146**	**1,708**	**1,472**	**1,867**	**2,380**
Income taxes	225	(420)	(221)	(411)	(524)
Net profit	**372**	**1,288**	**1,251**	**1,456**	**1,856**
Non-controlling interest	-	-	-	-	-

Key financial data

FY-ending Dec.	2020A	2021A	2022F	2023F	2024F
per share data (IDR)					
EPS	34.8	120.8	117.3	135.8	173.1
BPS	1,794.3	1,883.7	1,948.1	2,026.9	2,145.7
DPS	31.6	51.5	46.7	54.3	69.2
Growth (%)					
Sales growth	3.5	2.9	5.4	7.0	8.1
EBITDA growth	31.0	1.7	3.9	11.0	10.0
OP growth	(76.7)	450.3	0.5	16.5	13.6
NP growth	(47.9)	246.6	(2.8)	16.4	27.5
Profitability (%)					
EBITDA margin	50.2	49.7	48.9	50.8	51.6
OP margin	2.3	12.4	11.9	12.9	13.6
NP margin	1.4	4.8	4.4	4.8	5.7
ROA	0.6	1.8	1.7	1.8	2.3
ROE	1.9	6.6	6.1	6.8	8.3
Dividend yield	1.3	2.1	1.9	2.2	2.8
Dividend payout ratio	91.0	42.9	40.0	40.0	40.0
Stability					
Net debt (IDR bn)	6,383	7,608	11,673	11,790	12,202
Int.-bearing debt/equity (%)	48.8	51.1	63.7	60.9	57.5
Valuation (X)					
PE	71.8	20.7	21.3	18.4	14.4
PB	1.4	1.4	1.3	1.3	1.2
EV/EBITDA	4.4	4.5	4.7	4.3	3.9

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